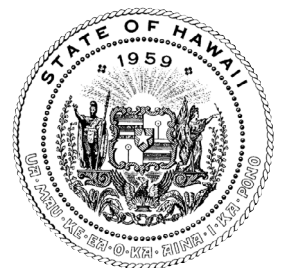


2004 Annual Report

State of Hawai'i
Office of the Auditor



Marion M. Higa
State Auditor

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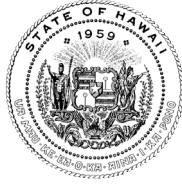
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STATE OF HAWAII OFFICE OF THE AUDITOR

MISSION OF THE OFFICE OF THE AUDITOR

THROUGH POSTAUDITS OF THE
ACCOUNTS, PROGRAMS, AND PER-
FORMANCE OF STATE AGENCIES,
THE OFFICE SEEKS TO ASSURE THE
ACCOUNTABILITY OF GOVERN-
MENT AGENCIES FOR THEIR
IMPLEMENTATION OF POLICIES,
MANAGEMENT OF PROGRAMS,
AND EXPENDITURE OF PUBLIC
FUNDS. THE OFFICE REPORTS ITS
FINDINGS AND RECOMMENDA-
TIONS TO THE GOVERNOR AND
THE LEGISLATURE TO GIVE POL-
ICY MAKERS TIMELY, ACCURATE,
AND OBJECTIVE INFORMATION
FOR DECISION MAKING.

The Honorable Members of the Legislature
The Honorable Linda Lingle, Governor

February 28, 2005

Ladies and Gentlemen:

This Annual Report summarizes the work of the Office of the Auditor in work year 2004. This report, and the audits themselves, spotlight some of the major issues facing State government.

Good government requires continuous improvement. State workers, although much-maligned, can and do pursue the ideal of improving government. This effort to reach beyond what has been done before reflects their optimistic search for something better and does, on occasion, bring success.

The office continues to use the concept of continuous improvement to foster better government. The improvements made by people at state agencies, and described in this report, are heartening and reflect our aspirations for an improved government.

Sincerely,

A handwritten signature in black ink, reading "Marion M. Higa".

Marion M. Higa
State Auditor



Essay: Kaizen, a Theme for 2004

It was fashionable many years ago for the American business community to wonder why Japanese manufacturers were so successful. Americans viewed the Japanese products as being superior to American products—production costs were much less than their U.S. counterparts and Japan's products were dominating the U.S. markets. Naturally, American business began to study what was the source of this remarkable success. It was, in one word, Kaizen.

Kaizen is the concept of gradual unending improvement by doing things better and setting and achieving higher standards. Kaizen is translated into the Western context as the process of continuous improvement. The spirit of continuous improvement is that whatever you are doing, you can do better.

In our work we look for what has been accomplished, what can be done better, and whether the situation meets the standards of high quality public performance. Quality means effective use of resources as well as the work product. Fortunately, there are examples of this spirit of continuous improvement in government.

The Follow-up Audit of Custodial Services Programs of the Department of Accounting and General Services, the Judiciary, the Department of Education, and the University of Hawai'i, Report No. 04-09, found numerous improvements. Our first audit, done in 1996, found no cleanliness standards, no management forms to ensure facilities were clean, no training programs, no use of cost data to assess the cost-effectiveness of resources, and custodial managers rarely belonged to relevant professional organizations. Presently, all four agencies employ more than 1,600 custodial staff responsible for about 24.5 million square feet in state facilities. Over \$46 million is expended each year by these agencies for custodial services.

Since 1996, all four agencies have adopted cleanliness standards. Most of the agencies have developed task lists, checklists and inspection forms. Some have created training programs. For example, the Judiciary uses checklists consistently at the Second Circuit Court, continually evaluates the cost-effectiveness of its custodial services, and uses its Judicial Education and Resource Development Program to create training. Some agencies have pursued training through the Department of Human

Resources Development or have created a training position. Where such resources are not available, in house or on the job training is performed.

Another example of Kaizen is reported in our audit of the *Public Utilities Commission (PUC) and the Division of Consumer Advocacy (DCA)*, Report No. 04-02. Although two prior audits found core deficiencies in the areas of planning and organization, the persistent staffing shortages and vacancies have begun to be addressed. The PUC indicates it has done a strategic plan with short and long-term goals, and submitted it to the Legislature. Although some time has passed since the prior audits were done in 1975 and 1989, both the PUC and DCA indicated their intent to continue their improvements.

Another example of a government effort to continually improve is the Department of Human Services' decision to expedite the applications of pregnant women. Before 1994, when Hawai'i established the QUEST managed care program, pregnant women were presumed eligible for medical services. With the 1994 establishment of QUEST, pregnant women went through the same processing as all other applicants. This led to concerns that delayed medical care, due to lengthy processing times, would lead to a negative impact on births. The Department of Human Services established an expedited processing goal—that it would process 95 percent of pregnant women's applications within five days. Our audit, Report No. 04-12, identified several items that prevented the department from reaching its goal department-wide but we also identified one unit that met the goal 100 percent of the time. The department indicates it has made several changes in response to our audit in order to more accurately measure processing times.

The English poet Robert Browning said,

*Ah, but a man's reach should exceed his grasp, or what's a heaven for?*¹

Browning was writing about an Italian painter but this quote could apply to government here and now. It epitomizes the yearning optimism that ought to accompany our reach for a higher goal. Even much-maligned government workers can, and do, sometimes reach beyond their grasp and go so far as to actually make improvements—to carry out Kaizen.

¹Robert Browning, *Andrea del Sarto* (Called "The Faultless Painter,") 1855, Lines 97–98.

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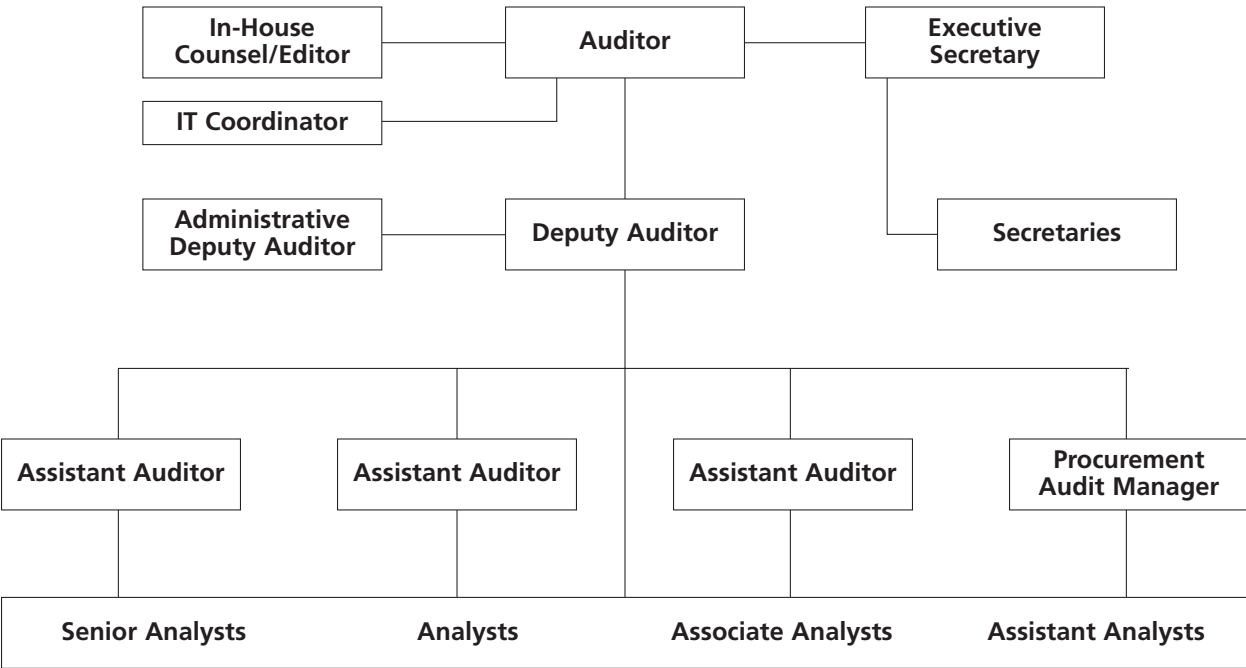
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ORGANIZATION OF THE OFFICE OF THE AUDITOR



Summary of Reports – 2004 Work Program

PERFORMANCE AUDITS AND STUDIES

- *Management Audit of the Public Utilities Commission and the Division of Consumer Advocacy*, Report No. 04-02
- *Audit of Selected Procurement, Human Resource, and Fiscal Issues of the Hawai'i Health Systems Corporation*, Report No. 04-03
- *Study of Separation Incentives Provided To Public Employees under Act 253 of the 2000 Legislature*, Report No. 04-04
- *Study of Proposed Mandatory Parity In Health Insurance Coverage for Additional Serious Mental Illnesses and for Substance Abuse*, Report No. 04-07
- *Audit of the University of Hawai'i Contract With the University of Hawai'i Foundation*, Report No. 04-08
- *Assessment of Proposed Mandatory Health Insurance for Cognitive Rehabilitation*, Report No. 04-11
- *Audit of the Department of Human Services' Expedited Application Process for Pregnant Women*, Report No. 04-12
- *Review of Revolving Funds, Trust Funds, And Trust Accounts of the Department of the Attorney General, the Department of Business, Economic Development, and Tourism, and the University of Hawai'i*, Report No. 04-13

- *Management and Fiscal Audit of the Harold L. Lyon Arboretum*, Report No. 04-14
- *Investigation of the Department of Land and Natural Resources' Process for Developing Recommended Candidate Lists for Appointments to the Island Burial Councils*, Report No. 04-15
- *Audit of Na Wai Ola Waters of Life Charter School*, Report No. 05-01

FINANCIAL AUDITS

- *Financial Audit of the Department of Health*, Report No. 04-05
- *Financial Audit of the Department of Defense*, Report No. 04-06

SUNRISE ANALYSES

- *Sunrise Analysis: Money Transmitters*, Report No. 04-10

FOLLOW-UP AUDITS

- *Follow-up Audit of Custodial Services Programs of the Department Of Accounting and General Services, the Judiciary, the Department of Education, and the University of Hawai'i*, Report No. 04-09

Management Audit of the Public Utilities Commission and the Division of Consumer Advocacy Report No. 04-02, February 2004

The 2003 Legislature through Act 94 requested a management audit of the Public Utilities Commission (commission) and the Division of Consumer Advocacy (division). The commission regulates all chartered, franchised, certificated, and registered public utility companies that provide electricity, gas, telephone, telecommunications, private water and sewage, and motor and water carrier transportation services in the state. The division represents the interests of consumers of utility services before any state or federal agency.

We found that the commission and the division initially did not have strategic plans to guide their agencies. More importantly, neither agency had a vision of Hawai'i's utility regulatory future and its role in that process. Lack of strategic planning was also evident in information technology. Neither the commission nor the division has a formal plan or strategy for information systems development. The lack of strategic planning affects the commission's and the division's administration of laws because both agencies have not assessed whether their administration of laws is effective in meeting the public's needs. However, the commission has indicated that it has done a strategic plan and submitted it to the Legislature. The commission has failed to

adopt administrative rules specifying maximum time periods for approvals despite a mandate in the automatic permit approval law. And the commission's complaints system does not fulfill statutory requirements for a central clearinghouse.

Poor personnel management planning results in staffing shortage and vacancies, outdated job descriptions, inconsistent performance evaluations, a lack of formal training programs, and inadequate staff and procedural manuals. Severe staffing shortages may compromise the quality of the agencies' work and result in delay. However, staffing shortages have now begun to be addressed.

The division does not adequately advance the interest of the public in its failure to fulfill its role in utility education and to assess the appropriateness of rule making. The division has not educated the public on public utilities regulation and has not assessed whether to adopt rules to carry out its responsibilities. The division stated that it has no plans to perform such an assessment or adopt rules.

We recommended that both agencies make strategic planning and personnel management a priority.

Audit of Selected Procurement, Human Resource, and Fiscal Issues of the Hawai'i Health Systems Corporation

Report No. 04-03, February 2004

The Hawai'i Health Systems Corporation (corporation) was created in 1996 as an independent agency attached to the Department of Health. It replaced the department's Division of Community Hospitals. The 1996 act creating the corporation requires it to develop policies and procedures for procurement consistent with the goals of public accountability and public procurement practices, and encourages the use of provisions of the Hawai'i Public Procurement Code.

Since its inception, the corporation has depended on state funding for operations and improvements, yet the corporation has not embraced the State's commitment to open, competitive bidding. Instead the corporation has adopted procurement practices that clash with government accountability. Lenient policies and a lack

of oversight facilitate discretionary contract abuses and result in millions of dollars in non-bid contract awards.

We also found that the corporation's hiring practices increase costs, risk substantial penalties, and may violate payroll tax laws. Hiring expensive independent contractors to perform essentially the same function as lower-paid employees illustrates an award process that emphasizes convenience over competition. And misclassifying workers as independent contractors may expose the corporation to liability for taxes and penalties. Furthermore, corporate perks to management employees are difficult to reconcile with government accountability.

The corporation uses municipal leases to raise money for equipment and infrastructure improvements. However, municipal leases are not subject to the State's debt ceiling but the State may be obliged to pay if the corporation is unable to make payments. Municipal leases account for over \$53 million. And in spite of the massive need for capital, the corporation does not have a comprehensive long-term capital spending plan for the whole system.

We recommended the corporation strengthen oversight, develop policies on hiring independent contractors, reassess its termination and separation policies, and establish accountability standards for capital investments.

Study of Separation Incentives Provided To Public Employees under Act 253 of the 2000 Legislature

Report No. 04-04, March 2004

The Legislature asked us to review the separation incentives law, Act 253, Part V, passed in 2000. The law authorizes the executive branch to offer voluntary severance or a retirement incentive for certain state employees. Those employees, whose positions were identified for abolishment, directly affected by a reduction-in-force (RIF), or workforce restructuring plan, were eligible for the incentive. Other jurisdictions, such as the counties, could also offer a special retirement incentive under a RIF or workforce restructuring plan. The separation incentives are a tool to assist in restructuring government. However, incorrect implementation and low agency

participation limited this tool's effectiveness.

It appears that the separation incentives program was not evenly applied by either the Department of Human Resources Development (DHRD) or the Department of Budget and Finance (B&F). These departments did not develop guidelines for all participating agencies, did not monitor workforce restructuring activities, or conclusively remove abolished positions from the budget files. This failure to provide specific guidance probably contributed to the problems with the Hawai'i Health System Corporation's program.

The Hawai'i Health System Corporation (corporation) is a separate state entity that implemented a separation program. The corporation's program allowed its employees to choose whether or not to retire and then abolished the position rather than first identifying positions to abolish. The corporation also offered cash buyouts to its employees and 13 people opted out of their jobs and were paid about \$275,000.

We found that the separation incentives law has done little to reduce the overall size and cost of government. Only two jurisdictions participated resulting in a total of 88 positions, with a savings of \$2 million annually, being abolished government wide. We recommended, along with other specific ideas, that DHRD and B&F collaborate with all government jurisdictions to ensure effective implementation of the separation incentives program.

Financial Audit of the Department of Health
Report No. 04-05, March 2004

The Office of the Auditor and the certified public accounting firm of KPMG LLP conducted a financial audit of the Department of Health for the fiscal year July 1, 2002 to June 30, 2003. The audit examined the department's financial records and transactions, reviewed the related systems of accounting and internal controls, and tested transactions, systems, and procedures for compliance with laws and regulations. The opinion of the firm is that the financial statements fairly present the department's financial position.

There were, however, deficiencies with respect to the department's internal controls over financial

reporting and operations. There were several problems surrounding use of the procurement code and contract administration. In a sample of 14 out of 60 purchases of less than \$25,000, the department failed to comply with Chapter 103D, Hawai'i Revised Statute (HRS), and its implementing regulations.

The department's contract management process lacked formal policies and procedures. In a sample of 30 contracts we found that three contractors were allowed to begin work before a legally binding contract was executed. Although small in number, the three contracts totaled about \$22 million.

Moreover, required federal financial reports were not timely submitted. Failure to comply with federal reporting standards can jeopardize federal funding. We recommended a checklist system to remind personnel of the deadlines and that managers monitor report submissions.

The department lacks formal policies or procedures to identify and lapse invalid encumbrances. After projects or services have been completed, the remaining money should be unencumbered.

And finally, the department lacked control over its petty cash accounts. There were 48 accounts totaling \$46,405 with individual account balances ranging from \$100 to \$10,000. We recommended that the department perform periodic, unannounced petty cash account reviews by an employee independent of the process. We also recommended that the department adhere to its own policies of semi-annual reconciliations and consider requiring petty cash reconciliations upon each request for replenishment.

Financial Audit of the Department of Defense
Report No. 04-06, March 2004

The Office of the Auditor and the certified public accounting firm of PricewaterhouseCoopers LLP conducted a financial audit of the Department of Defense for the fiscal year July 1, 2002 to June 30, 2003. The audit reviewed the department's financial records and transactions, the related systems of accounting and internal controls, and tested transactions, systems, and procedures for compliance with laws and regulations. The opinion of the firm is that the financial

statements, except for accounting relating to capital assets, fairly present the department's financial position.

Problems relating to the department's capital assets were the reason for the qualified opinion. There was inadequate accounting for capital assets because the department failed to adequately document capital asset costs and depreciation and restated the prior period capital assets balance to reflect additional capital assets that should have been previously capitalized and depreciated.

There were three other concerns. The first was with the management of contracts. Contract files were not properly maintained, bid opening procedures were not followed, small purchase vendor selection was not documented, screening committee requirements were not followed, and services were rendered before contracts were executed. Because the department's supporting documents for its procurement decisions were incomplete, the department was not in compliance with the procurement code.

Secondly, the department did not correctly allocate wages on a timely basis. Some department employees are paid by state and federal funds. Our review of pay periods revealed that payroll wages were incorrectly charged to federal funds rather than split between federal and state funds. Although there were later corrections to these errors, there are no procedures to ensure changes are timely.

Our last concern was that certain federal financial status reports were not filed on time. We sampled 15 out of 68 quarterly reports from FY2002–03. Of the 15 there were five that the department submitted late. Although there was no penalty in this instance, we recommended that the department establish formal written procedures to ensure responsibility for timely reports.

Study of Proposed Mandatory Parity In Health Insurance Coverage for Additional Serious Mental Illnesses and for Substance Abuse
Report No. 04-07, April 2004

The Legislature requested a social and financial assessment of the effect of mandating parity, or

full coverage, in two areas of health insurance. The request was made in Senate Concurrent Resolution No. 116, Senate Draft 1, House Draft 1 (SCR No. 116). The areas are *serious mental illness* and substance abuse. The Legislature proposed adding delusional disorder, major depression, obsessive compulsive disorder, and disassociative disorder to the definition of serious mental illness. Under Hawai'i law, disorders included in the definition of serious mental illness benefit from insurance coverage on a par with other medical and surgical conditions. Coverage of other mental illness and substance abuse treatment is mandated by statute as well, but with benefit limits not applicable to serious mental illnesses.

We found that the social and financial impacts of mandating parity in health insurance coverage for the expanded definition and for substance abuse are unclear. The data required by SCR No. 116 were not available. We surveyed practitioners, consumer groups, employer and labor organizations, and other stakeholders but could not draw a definitive conclusion because of a low response rate of 16 percent. Although the applicability of another state's experience is limited, we reviewed Vermont since it had a case study. Vermont had, overall, a minimal increase in initial costs and no substantial increase in premiums in the initial years. The overall minimal cost was a reflection of a decline in substance abuse treatment and a low increase in mental health treatment in managed care.

This result is consistent with the U.S. Department of Health and Human Services study which concluded state laws had a small effect on premiums. The same study shows that employers have not opted for self-insurance to avoid mandatory coverage laws and do not tend to pass on the costs to employees.

However, determining the social impact of the legislative proposal in Hawai'i was more difficult. Findings on potential financial impact were sparse. For Hawai'i, the two major health plan insurers reported that only a small percentage of patients exceeded the current benefit limits for mental illness and substance abuse treatment.

***Audit of the University of Hawai'i Contract
With the University of Hawai'i Foundation***
Report No. 04-08, May 2004

This audit fulfills a request from the 2002 Legislature to review a contract between the University of Hawai'i and the University of Hawai'i Foundation. Under the contract the foundation provides fundraising, stewardship, and alumni relations services. In turn the university pays more than \$3 million per year from 2002 to FY2007-08 for the services. The 2002 contract succeeds a 1997-2002 contract for \$1 million per year for the university's 1997-2002 fundraising campaign.

We found two serious problems with the fundraising contract: there were neither well-founded plans nor well-articulated expectations. Instead, the contract language lacks clear descriptions of mutual responsibilities, deliverables, and performance standards making it difficult to monitor performance. These issues led us to other problems outside of the language of the contract.

The contract was negotiated and processed outside the university's procurement process, which violated the university's own sole source procurement requirements. Then, when the Board of Regents considered the contract, it used only a minimal amount of information to unanimously approve the contract.

The Board of Regents is the entity to receive, manage, invest, and account for gifts on behalf of the university. Oversight of these gifts requires reports, standards, and policies to ensure the proper handling of money and faithfulness to donor intent. These policies should have been incorporated into the contract. The lack of specific policies to foster accountability made the board's oversight even more difficult.

We recommended that contracts for fundraising services be processed within the university's contracting system and have the specific language that ensures accountability. We also recommended that the Board of Regents develop policies for fundraising; monitor and audit fundraising activities; and ensure that donor intentions are fulfilled.

***Follow-up Audit of Custodial Services Programs
of the Department Of Accounting and General
Services, the Judiciary, the Department of Edu-
cation, and the University of Hawai'i***
Report No. 04-09, May 2004

This office conducted a follow-up audit of custodial services used by four state entities. The follow-up was to assess progress made since our 1996 audit. The 1996 audit recommended establishing fundamental management controls. This year we found that some controls have been partially implemented but several remain weak.

Our five recommendations in 1996 were to: adopt relevant cleanliness standards; use task lists, checklists, and inspection forms to monitor and measure custodial tasks; develop training programs; use cost data to assess the cost effectiveness of resources used and to compare alternative delivery methods; and that custodial program managers belong to relevant professional organizations to stay abreast of industry techniques and standards.

All four entities have adopted some management controls. For example, three of the four have adopted cleanliness standards from the Association of Physical Plant Administrators (APPA). However, the standards were not put into written procedures but were only passed on through occasional memos and verbal comments to staff. Staff revealed that they were unaware of such standards. The fourth entity, the Department of Education, created its own standard and incorporated it into a manual for custodial services. The lack of clearly communicated procedures to enforce the standards makes it impossible to monitor the quality of services.

The remaining four areas where we recommended improvement had similar problems. For example, program managers created checklists and inspection forms. But use of these forms was left to chance, again resulting in inconsistent service. As to training - all entities have some parts of a formal training program but actually relied heavily on on-the-job training. The other areas left incomplete were cost data to assess effectiveness and compare alternative service methods, and custodial program managers belonging to relevant professional organizations.

Sunrise Analysis: Money Transmitters
 Report No. 04-10, October 2004

The 2004 Legislature asked the Office of the Auditor to analyze whether money transmitters should be regulated as proposed in House Bill No. 2428. This request was specifically made through House Concurrent Resolution No. 90, House Draft 1. Money transmitters are non-bank entities that send money between persons by any means, including wire, facsimile, or electronic transfer. These transfers can be inside or outside the United States. The bill proposed regulating money transmitters through the Department of Commerce and Consumer Affairs, Division of Financial Institutions.

The proposed bill's purpose is to protect consumers from harm if funds are delayed or not received. It would also protect the general public from the transfer of money for criminal purposes. The Hawai'i Regulatory Licensing Reform Act, found in Chapter 26H, Hawai'i Revised Statutes, states that professions and vocations should only be regulated when reasonably necessary to protect the health, safety, and welfare of consumers. Other guidance was from the Council on Licensure, Enforcement and Regulation, an international organization, that produced a publication *Questions a Legislator Should Ask*. According to this publication, the primary guiding principle for legislators is whether the unregulated profession presents a clear and present danger to the public's health, safety and welfare. If it does, then regulation may be necessary.

We did further work to broaden the scope of our information. We surveyed financial institutions, regulatory agencies in other jurisdictions, and inquired into what harm may have occurred in Hawai'i. After considering all of the input, we found little evidence of harm to consumers or the public.

We also found little evidence to link the use of money transmitters to facilitate crimes. The vast majority of money transfers through a Hawai'i entity would be interstate or international. Potential illegal interstate or international transactions would be under federal jurisdiction. Given the apparent lack of harm and the presence of other laws, we recommended that House Bill No. 2428 not be enacted.

Assessment of Proposed Mandatory Health Insurance for Cognitive Rehabilitation
 Report No. 04-11, November 2004

The 2004 Legislature requested that the Office of the Auditor assess the social and financial impacts of mandating insurance coverage for cognitive rehabilitation, pursuant to sections 23-51 and 23-52, HRS. The request was made through Senate Concurrent Resolution No. 37. The Legislature expressed concern because of the lack of services, long rehabilitation process for such patients, and the lack of coverage by some health benefit plans.

Cognitive rehabilitation is one form of medical treatment for impairments due to traumatic brain injury. Traumatic brain injuries affect physical and cognitive functions. Cognitive functions include things such as memory or information retrieval; comprehension; thought processing; attention span; prioritizing thoughts; following a schedule; and understanding abstract, conceptual or complex information. Cognitive rehabilitation refers to strategies or techniques that seek to reduce, manage, or cope with the impaired functions.

There were two initial problems with performing a social and financial assessment of mandating insurance coverage. First, there is, according to the State Department of Health, no standard operational definition for cognitive rehabilitation. Second, existing studies have not definitively determined the effectiveness of cognitive rehabilitation. While current literature indicates there are on-going studies, even those studies lack a standard definition for cognitive rehabilitation.

In addition to the above research, we surveyed consumers and insurance companies. Their conflicting views reflected the uncertainty we found in the medical community. Consumers indicated a moderate to significant demand for services while insurers indicated little to no demand. The labor unions expressed no overall position. Since mandatory health insurance for cognitive rehabilitation appears premature, given the lack of a definition and definitive scientific research, we made no recommendations.

Audit of the Department of Human Services' Expedited Application Process for Pregnant Women

Report No. 04-12, December 2004

The Department of Human Services' Med-QUEST Division manages the State's medical assistance programs including Medicaid assistance for pregnant women and a managed care program called QUEST. Before the State established QUEST in 1994, pregnant women were presumed eligible and permanent Medicaid eligibility was determined later. After QUEST was implemented, pregnant women went through the same lengthy eligibility process as everyone else. There were concerns that this added time delayed prenatal care for pregnant women and could have a negative impact on births.

To address this concern the department voluntarily established an expedited application process in 2004. They stated that they would process 95 percent of pregnant women's completed applications within five business days and then maintained statistics showing that they met their goal. However, we found that while the department made notable progress, it actually fell short of its goal. There were three reasons for that shortfall.

First, we reviewed and tested the department's statistics by looking at application files and calculating compliance rates. Actual compliance rates ranged from 71 to 100 percent. Secondly, the understanding of the standard used to measure the number of processing days varied among division staff and supervisors, resulting in different measurements of the actual processing times. And thirdly, the actual statistics kept by the division staff differed from what was in the computer database and used to calculate the department's statistics.

The Office of the Auditor was also asked to analyze whether a return to presumptive eligibility would benefit pregnant women. We found that presumptive eligibility may not be any better than the present expedited process, and may cost more and be a barrier to early prenatal care. Reduced federal requirements and department efforts have already streamlined the process making presumptive eligibility unnecessary. Our recommendation is that the department

needs further time with expedited processing. We believe it may be too early to conclusively determine results as the Department has only six months of data for its analysis.

Review of Revolving Funds, Trust Funds, And Trust Accounts of the Department of the Attorney General, the Department of Business, Economic Development, and Tourism, and the University of Hawai'i

Report No. 04-13, December 2004

The Office of the Auditor is required by Hawai'i law to review revolving and trust funds and trust accounts every five years. There are specific criteria used to review each fund: whether the fund's purpose matches the fund's actual use, a five year financial summary, and other criteria developed by our office using public finance and accounting literature. This is our third report for the above three agencies.

Of the 92 funds and accounts we reviewed, 60 were revolving funds, 16 were trust funds, and 16 were trust accounts. Revolving funds are often established with seed money from the general fund, demonstrate the capacity to be self-sustaining, and then are replenished through the activities of the fund. Trust funds create a fiduciary responsibility by the State to use the assets for another's benefit. Such trust funds have a purpose and a specific group of people for whom it is intended. Trust accounts are typically holding or clearing accounts for state agencies. These accounts are often used to process credits or charges to agencies for payroll or other costs.

We presented conclusions about the use of the funds meeting their criteria, but not about the effectiveness of the program or program management which uses the funds.

Management and Fiscal Audit of the Harold L. Lyon Arboretum

Report No. 04-14, December 2004

The 2004 Legislature requested a management and fiscal audit of the Harold L. Lyon Arboretum (arboretum) through Senate Concurrent Resolution 115. The arboretum is located in Manoa Valley on the island of Oahu, covers about 194 acres, and houses a collection of native and

exotic plants. It was given in 1953 by the Hawai'i Sugar Planters' Association to the University of Hawai'i for use as an arboretum or botanical garden.

The audit focused on the university's strategic planning and management control of the arboretum. Our review revealed a lack of strategic direction leaving the arboretum outside the integrated planning of the university. The lack of a strategic plan has left the arboretum subject to the whims of its staff and the Lyon Arboretum Association rather than the university's policy-makers. The Lyon Arboretum Association is a separate, non-university, non-profit entity that raises funds and supports the operations of the arboretum.

The university's lack of interest in integrating the arboretum extends to a disinterest in management controls, and the controls that do exist have been inadequate. Arboretum operations lack proper organizational structures, accurate position descriptions, meaningful staff performance evaluations, a systematic budgeting process, and proper financial and inventory accounting. Land use violations were found because structures were built without proper permits. Without effective management controls, the arboretum fell into disarray.

Part of the neglect includes inattention to the arboretum's fiscal and procurement practices. There has been inadequate funding for the arboretum's physical facilities. Its deteriorating structures endanger staff and visitors. Neither plans were created nor resources sought to perform regularly scheduled maintenance.



One of our recommendations was that the university begin a strategic planning process, but only if the arboretum fits into the institution's overall mission. This process, along with the use of management controls, should bring the university closer to honoring the stewardship granted to it many years ago.

Investigation of the Department of Land and Natural Resources' Process for Developing Recommended Candidate Lists for Appointments to the Island Burial Councils

Report No. 04-15, December 2004

The 2004 Legislature requested a review of the nomination and appointment of candidates to the island burial councils through its House Concurrent Resolution No. 165, Senate Draft 1. The island burial councils, part of the Historic Preservation Program created under Chapter 6E, Hawai'i Revised Statutes, are administered through the Department of Land and Natural Resources (DLNR). The purpose of the councils is to decide on the preservation in place or relocation of Hawaiian burial sites; assist the DLNR in the inventory and identification of native Hawaiian burial sites; and make recommendations on appropriate management, treatment, and protection of burial sites. We also reviewed the statute creating the program and the support services provided by the DLNR.

The concerns about a disorderly council appointment process were partially corroborated. While one list was submitted on time, later lists were slower to develop. This resulted in a large number of interim and holdover members. We also found that the nomination process lacked criteria for regional representative candidates. The DLNR did not develop guidelines to guide these nominations nor maintain records on potential council members' qualifications.

The historic preservation law, essentially unchanged since it was passed in 1990, contains flaws. These flaws compound the difficulty in administering the law. For example, the Office of Hawaiian Affairs is to submit a list of candidates, but to whom the list is to be submitted is unclear. Despite recognizing the need for correction to the law, the department did not pursue any amendments.

Finally, the department's lack of commitment to the burial sites program foreshadows future problems. Functional statements, organization charts, policies and procedures had not been developed. Inadequate staffing persisted and led to a substantial backlog of work leaving hundreds of cases unfinished.

Audit of Na Wai Ola Waters of Life Charter School

Report No. 05-01, January 2005

Na Wai Ola Waters of Life Charter School was established in 2000 on the Big Island and provides regular and special education to over 130 students in kindergarten to grade 12. We found that defects in the charter school law, a lack of oversight by the State Board of Education, and the school's governance and business practices have contributed to the school's fiscal crises.

The charter school law lacks clear delineations of authority and responsibility resulting in conflicting roles and uncertainty. It also provides little basis for ensuring accountability and school viability, while failing to address other issues that may expose the State to unintended liabilities and entanglements. Such issues include ownership of real property purchased by charter schools, liability for debt, and the risks associated with business ventures undertaken by charter schools to supplement their income. These issues arose at Waters of Life Charter School.

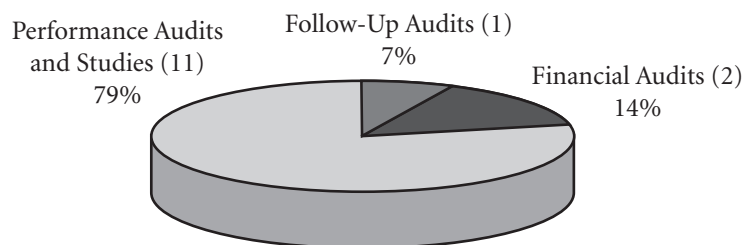
The Board of Education awarded a charter to Waters of Life based on an inadequate business

plan and before the school was ready to effectively and responsibly manage its finances. These deficiencies contributed to later managerial and financial school problems. The board has not held the school accountable and has no reliable measures of the school's educational success. The board's oversight also failed to ensure that teachers are properly qualified under the charter and comply with health and safety requirements.

Waters of Life Charter School's faulty planning and governance practices have contributed to its financial woes. Its board lacks the diversity and experience needed to oversee the administration of an annual budget nearing \$1 million. The poor fiscal management has caused waste and loss and leaves the school's decision makers without reliable financial information. School expenditures, \$2.6 million since inception, lack justification and documentation. Uncertainty about meeting its future financial commitments clouds the future of the school.



TYPES OF REPORTS 2004



Actions Taken on Previous Recommendations

(Report Nos. 03-02 through 04-09)

Report Title: **A Financial Audit of the John A. Burns School of Medicine of the University of Hawai'i**
 Report No.: 03-02

RECOMMENDATIONS

1. The school should revise its planning for contract negotiations by allowing more time for contract negotiation and execution, such that services commence only after the contracts have been finalized and executed. In addition, the school should review the process used to prepare the final contract reconciliations to ensure that the final bills are sent out in a timely manner.
2. The school should take more seriously the consequences of not identifying conflict of interest situations on a timely basis and enforce policies, procedures, and deadlines for completion and submission of the annual disclosure forms and outside employment forms.

ACTIONS TAKEN

The school has revised its process of planning for contract negotiations to improve timeliness of contract execution:

Draft budgets for salary and fringe reimbursement agreements are sent to department chairs and hospital administrators in early April;

Requested edits are evaluated and incorporated by early May; and,

Final drafts are then distributed to all parties with the goal of obtaining all signatures by the end of June.

The school is still in the process of building an information system that will automate the budget process which is expected to further improve the timeliness of the contracting process.

In addition, the school has improved the process used to prepare the final contract reconciliations by performing monthly reconciliations to minimize unreconciled items at the end of the contract period thereby reducing the amount of time necessary to prepare and send out final bills.

Since the audit, the school strictly enforces policies and procedures designed to identify and resolve conflict of interest situations on a timely basis. The school ensures that deadlines for completion and submission of annual disclosure forms are met. School departments are required to have its personnel complete the disclosure forms by April 15 of each year. The departments send a summary of the results along with information on any unresolved potential conflict situations to the school's dean's office by May 15 of every year. The dean's office then summarizes this information on the school level and sends it to the Manoa chancellor's office by June 30. The school follows through to ensure that all potential conflict situations are quickly resolved. Personnel are also reminded about the policy for outside employment forms on an annual basis. The school requires that outside employment forms be submitted by personnel before they engage in the outside activity.

Report Title: **Financial Audit of the Department of Business, Economic Development and Tourism**
 Report No.: 03-03

RECOMMENDATIONS

We recommend that the Hawai'i Tourism Authority:

- Execute formal contracts before contractors perform services;
- Monitor contracts and relevant agreement terms in a complete and timely manner. Final reports should be received from contractors by the completion date stipulated in the contract. Further, final payments should be withheld from contractors until final reports are received and approved; and
- Perform final evaluations of each contractor prior to entering into any subsequent agreements with them.

We recommend that the Department of Business, Economic Development and Tourism:

- Reconsider its decision to place top priority on loans issued to high technology and biotechnology businesses in order to increase participation in the department's loan programs by small businesses in Hawai'i;
- Implement a formal marketing strategy to increase public awareness of its various loan programs. These efforts could include preparing informational packets for distribution to loan officers at various financial institutions in Hawai'i. Loan officers could then provide the informational packets to loan applicants who are initially denied credit by the financial institution but may qualify for the department's various loan programs;
- Revise procedures to monitor delinquent accounts by contacting borrowers as soon as their accounts become ten days past due. For participation loans, the department should coordinate collection efforts with lead financial institutions to ensure collection of past due amounts;
- Establish written guidelines for the following loan functions: loan origination, maintenance of loan files, loan payment processing, and monitoring of delinquent borrowers;
- Ensure that loan files are properly maintained and contain all required documentation. The department's

ACTIONS TAKEN

The authority will continue to work with its private contractors to provide all required documentation on a timely basis that will fulfill the technical requirements for contracting with a state agency.

Despite continuing staff shortages, the authority has reorganized its staff to closely monitor a contractor's performance and to enforce current contract provisions that allow withholding of final payment until reports are received and approved.

The implementation of the Auditor's recommendations has also been incorporated into the work plan of authority staff.

The Hawai'i Capital Loan Revolving Fund was repealed as of July 1, 2004. No loans are being made.

No new actions taken after the audit.

Loan delinquent reports for both direct and participation loans are prepared monthly. However, the department has established better coordination between the loan staff and the accounting section to ensure immediate collection follow-up via telephone and letters.

The department's loan program staff is comprised of one loan officer. The purpose of the loan program is to support businesses that would not be able to obtain loans from traditional sources. As such, a decision was made that preparing lengthy written guidelines would not be a good use of taxpayer's funds given limited resources available.

No new actions taken after the audit.

standardized checklist of all required loan file documentation should be consistently utilized to ensure proper file maintenance; and

- Deposit loan repayments on the day of receipt.

We recommend that the department:

- Adhere to established policies and procedures to unencumber funds relating to contracts/purchase orders that are fulfilled during the year;
- Periodically evaluate the propriety of all outstanding encumbrances. Ensure that all encumbrances correspond to active and ongoing projects or purposes; and

- Promptly unencumber encumbrances related to closed, terminated, and/or completed projects or purposes.

We recommend that the department:

- Perform periodic, unannounced reviews of each division's petty cash account reconciliations, including unannounced cash counts. An employee independent of the petty cash process should perform the review;
- Adhere to established policies requiring divisions to prepare and submit reconciliations of their petty cash account upon each request for replenishment. If reconciliations are not prepared and submitted, the fiscal office should not process the replenishment request; and
- Significantly reduce the amount of funds in the administration petty cash fund.

The department has updated internal fiscal procedures which require deposit of loan payments on the day of the receipt whenever feasible.

All contracts and purchase orders which are fulfilled are closed out within 30 days in compliance with established policies and procedures.

The department's contracts section has continued to work with the programs by notifying them within three months of the expected termination of a contract. At that time, the program is required to either follow procedures to extend the contract or close out the unfulfilled contract.

Close project monitoring of all contracts is also being done by the department to ensure proper administration and timely completion of outstanding projects.

To date, 98 percent of all outstanding contracts have been closed with remaining funds unencumbered. The remaining 2 percent of outstanding contracts are currently in the process of being closed or resolved.

The department's fiscal section has conducted unannounced cash counts for several petty cash funds and has documented the procedures followed and results of the reviews.

The department's fiscal section has been reviewing each replenishment request for compliance with departmental policies and procedures. Currently no replenishment request is being processed without the submittal of the required petty cash fund reconciliation from the program.

The department reduced its administration's Petty Cash Fund to reflect a lower level required for its current operations.

Report Title: **Review of Selected University of Hawai'i Non-General Funds and Accounts**
 Report No.: 03-04

RECOMMENDATIONS

The president of the University of Hawai'i should ensure that:

- Adequate written policies and procedures are developed for the Research and Training Revolving Fund to ensure that the fund is used as originally intended;

ACTIONS TAKEN

Written policies and procedures covering expenditures and allocations for the Research and Training Revolving Fund have been issued by the Vice President for Research.

- b. Adequate written policies and procedures are developed for the Tuition and Fees Special Fund to ensure that revenues are appropriately allocated, expended, and monitored;
- c. The State Higher Education Loan Fund's written policies and procedures are reevaluated to ensure that loan collections are maximized;
- d. A responsible party is designated to oversee the Tuition and Fees Special Fund and the Research and Training Revolving Fund;
- e. Endowment Fund expenditures are adequately monitored to ensure that the endowment fund accounts are being used as originally intended;
- f. Contracts and agreements funded by the Tuition and Fees Special Fund, Real Property and Facilities Use Revolving Fund, and State Higher Education Loan Fund are executed, monitored, and enforced in a timely manner;
- g. The University of Hawai'i Foundation contract to provide fundraising, stewardship, and alumni relation services is amended to require the foundation to adhere to its expenditure policies; and
- h. The University of Hawai'i Foundation contract is amended to ensure that the university has the express authority to monitor and review the foundation's services and expenditures.

The Board of Regents should institute the following reporting requirements:

- a. Regular reports from the university president on non-general fund revenues and expenditures; and
- b. Monthly reports from the University of Hawai'i Foundation detailing specific contract expenditures and a description of how those expenditures directly benefited the university.

Written policy for the Tuition and Fees Special Fund was developed by the university Budget Office. The policy was submitted to the Vice President for Administration and Chief Financial Officer for review. This policy has not yet been adopted

The loan collection office reviewed its operating procedures and implemented several changes to improve collections. These include implementing an "early intervention" program, skip-tracing, and a more aggressive follow-up program.

In response to this recommendation, the university's budget director was designated as the responsible individual for overseeing the Tuition and Fees Special Fund and the Vice President for Research was assigned responsibility for the Research and Training Revolving Fund.

Program heads are primarily responsible for ensuring that endowment funds are used as intended. Additionally, the university will conduct spot audits of program expenditures to help ensure that funds are being appropriately spent.

Stronger monitoring practices by the university's procurement office were implemented to help address this issue. Additionally, a memorandum was issued to the University Executive Council and the Council of Chancellors reminding university departments of the need for timely execution of contracts.

The Board of Regents has established a task group to work with the university administration and the foundation in developing a revised contract

As indicated above, the Board of Regents has established a task group to work with the university administration and the foundation in developing a revised contract. Additionally, foundation personnel provide periodic written and oral reports of expenditures and other performance measures to the university's Board of Regents.

The university administration submits quarterly reports on non-general fund budget versus actual revenues, expenditures, and transfers to the Board of Regents.

The University of Hawai'i Foundation's Vice President for Administration and Chief Financial Officer provide an oral and written report each quarter explaining the details of how the money from the university was spent by the foundation for fundraising. Each month the Vice President for Admission and CFO detail expenses for alumni relations and the development staff payroll; the Associate Vice President for Alumni Relations reports on alumni relations activity; and the Foundation President reports on its fundraising activities and gifts to the university.

Report Title: **Evaluation of the State's Integrated Special Education Database System**
 Report No.: 03-05

RECOMMENDATIONS

1. The superintendent of education should:
 - a. Address the ISPED infrastructure and web site issues to encourage ISPED utilization;
 - b. Establish an adequate system to address user questions and concerns;
 - c. Ensure that ISPED meets all *Felix* consent decree requirements;

ACTIONS TAKEN

Critical issues expressed by users are being addressed. They include:

- Improved printing of IEP and progress reports; improved document editing in the eligibility module, and others requested by users.
- ISPED changes are restricted to no more than 2 refreshes per year.
- Three servers will be replaced and be in use in January 2005.
- All schools are now networked and connected to the Wide Area Network.
- Archive specifications have been modified so that more data can be archived. This is being tested and is expected to be in use in December 2004.
- Special education teachers will receive, in phases, new IBM laptops and training. The first phase began in July 2004 and will go through January 2005.
- A December 2003 survey of the 943 special education teachers revealed that 84 percent noted improvements to ISPED, 7 percent noted no improvement, and 9 percent had no response or chose not applicable.
- Web issues were addressed in October 2002 under industry standards and continue to be maintained under specific guidelines.

"Help ISPED" emails are monitored, tracked, and responded to in a timely manner, usually within 24 hours.

Recurring questions and concerns are identified and users are informed through ISPED homepage announcements, the FAQ, or by training.

The department is implementing a central help desk, an automated help desk, and a tracking system. ProjectTrak software is being used by two system help desks but lacks the security needed to insure confidentiality. This is being addressed with the vendor and will be implemented with the help desk conversion.

The U.S. District Court has found the department, including ISPED, in substantial compliance with the *Felix* consent decree. An April 2004 Stipulation for Step-Down Plan and Termination of the Revised Con-

- d. Ensure that future contracts are properly executed and supported and clearly tie contractor's remuneration to measurable deliverables;
- e. Ensure that ISPED ownership rights and potential royalty income from the sale of these rights is addressed;
- f. Clarify the departments' organizational structure as it relates to ISPED and establish formal guidelines that clearly delineate roles and responsibilities;
- g. Ensure that staff position descriptions are updated and adequate, consistent training programs are implemented for ISPED staff and users, and staff are regularly evaluated;
- h. Ensure that ISPED's budget and expenditures are adequately tracked, monitored, and scrutinized on an on-going basis;
- i. Ensure that efforts to obtain Medicaid reimbursements, federal funds, federal reimbursements, and private funds are maximized and monitored by a centralized authority; and
- j. Establish formal guidelines on how to utilize ISPED to meet state and federal requirements.

sent Decree requires five quarterly performance reports to be posted on a web site. Much of the data for the performance reports is generated by ISPED.

All vendor contracts are defined by clear statements of work addendums. Invoices reflect the statements of work and are carefully reviewed to insure all deliverables are fulfilled.

The department has full ownership rights to ISPED. The MOU between Spectria and the department was mutually dissolved in November 2002.

ISPED's roles and responsibilities are outlined in an ISPED organization chart.

Position descriptions for ISPED staff have been updated to reflect enhancements to roles and responsibilities. Staff evaluations are conducted as required, new staff received an initial orientation and training, and on-going peer training is provided to create a well rounded and informed team.

ISPED expenses are carefully monitored, routinely scrutinized, and operations and projects are delivered on time and within budget.

The department continues to monitor the changing environment for school-based Medicaid reimbursement claims. In 2004 the department requested, but was denied, legislative funding for a Medicaid claims infrastructure. The funding would have included changes to the ISPED infrastructure.

Medicaid claims cannot be implemented until ISPED's functionality is resolved. Meanwhile, the department continues to monitor how claims are done in other states so as to be prepared to implement claims when policy and funding issues are resolved.

Utilization memos are regularly sent to the field. The ISPED process database helps to ensure compliance with Chapters 53 and 56. The ISPED homepage also has links to the most "Frequently Asked Questions" and the ISPED User Manual.

Report Title: **Management Audit of the University of Hawai'i Incentive Early Retirement Program (IER)**
 Report No.: 03-06

RECOMMENDATIONS

1. The Board of Regents should assess the merits of the Incentive Early Retirement Program and consider eliminating the program.

ACTIONS TAKEN

The Incentive Early Retirement (IER) program has been assessed and determined to be an effective means of retaining experienced employees to support university programs while replacements are recruited. In many cases, the IER program also results in cost savings as higher paid senior employees are replaced with new hires at lower pay levels. We have also found that the

2. If the Board decides to keep the program, it should require closer review of the program, including:
 - a. Determining what types of information are significant to the success of IER, and requiring that all applications include such information (e.g., anticipated cost savings from IER);
 - b. Considering implementing post-IER evaluations to determine whether the outcomes of the program justify its continuation; and
 - c. Monitoring overall costs and assessing whether IER has been effective in meeting its human resource needs.

opportunity to work part-time is an incentive for employees to retire. Therefore, the IER program serves the further purpose of creating employment opportunities for the people of our state.

The university will more closely review the IER program to better determine its overall costs and its impact on meeting human resource objectives.

Applications for incentive early retirement usually contain information concerning the benefits to the program of retaining a retired employee on a part-time basis, as well as anticipated cost savings.

The IER program will be evaluated annually to determine whether desired outcomes are being achieved.

The overall costs of the program will be determined annually to determine whether cost savings and/or efficiencies are being realized.

NOTE: This report, at Exhibit 2.1, contained some errors. Nonetheless, the outcome on the percent difference varied only by one percent. Our original and updated exhibits are as follows:

Original Exhibit 2.1 – Difference in Salary between Retirees and Higher-Paid Replacements

# of Retirees	Total Retirees' Salary	Total Replacements' Salary	Difference	% Difference
22	\$1,564,809	\$2,306,728	\$741,919	47%

Revised Exhibit 2.1 – Difference in Salary between Retirees and Higher-Paid Replacements

# of Retirees	Total Retirees' Salary	Total Replacements' Salary	Difference	% Difference
7	\$ 558,825	\$ 827,844	\$269,019	48%

Report Title: **Follow-Up Audit of the Department of Human Services' QUEST Demonstration Project**
Report No.: 03-07

RECOMMENDATIONS

1. The Department of Human Services should evaluate QUEST's efficacy and appraise the time and resources (human, financial, and physical) necessary to continue and/or expand the demonstration project. If the evaluation concludes that the managed care concept should be continued, statutory authority should be sought to make the project permanent and end the newer requirement mandated under the demonstration waiver process.
2. The Department of Human Services should ensure that a standard operating procedures manual is adopted and followed by the Med-QUEST Division. The manual should include standard procedures for

ACTIONS TAKEN

Because QUEST slowed down rising Medicaid costs, the department is currently preparing to submit an application to the federal Medicaid agency in December 2004 to expand QUEST and provide both acute and long-term care services for aged, blind, and disabled (ABD) who are currently served in the traditional Medicaid fee-for service program.

Prior to the audit, the Med-QUEST Division adopted a standard operating procedures manual in 1995 to address the processing of applications and active cases between MQD and the Benefit Employment Support

processing eligibility applications as well as handling of cases that are transferred from other departmental divisions.

3. The Department of Human Services should evaluate HAPA to assess the efficacy of shared technology to fulfill information system requirements. The department should also ensure that such alternatives are identified and evaluated as part of the information system decision-making process.

Services Division (BESSD). Unfortunately, the differences in organizational set up, the nature of the case-loads, and geography on all of the islands made the uniform implementation of the manual difficult. After the audit, the draft of the manual has been submitted for comments to the BESSD and MQD Branches that are responsible for eligibility determinations and case maintenance.

The department concurs with this recommendation, has evaluated the efficacy of shared technology as part of future HAPA planning, and will continue that evaluation process.

In the next few months, Hawai'i and Arizona will be jointly issuing a Request for Information (RFI) to gather information on technical solutions now available in the marketplace, which may meet the business needs of both states. The results of the RFI process will be incorporated in the evaluation of the efficacy of sharing systems to meet the business requirements of both states individually as well as jointly. The Centers for Medicare and Medicaid Services (CMS) continues to support the HAPA project. Therefore, any change to this arrangement will require CMS approval through an Advance Planning Document (APD). Inherent in the APD process are requirements for a needs assessment, alternative analysis and cost benefit analysis.

Report Title: **Audit of the Department of Education's Special Education Equipment**
Report No.: 03-08

RECOMMENDATIONS

The Superintendent of Education should ensure that the department:

- a. Updates its financial management system to ensure compliance with state procurement requirements;
- b. Establishes standard procedures to ensure that annual physical inventories are accurately and consistently performed;
- c. Monitors and audits inventory reports to ensure that schools and offices comply with policies and procedures established in the department's property inventory guide;

ACTIONS TAKEN

The special education program's need to acquire a large number of laptop computers necessitated the purchase through a central buyer to obtain the lowest possible price. In the future, should bulk purchases be made, we will ensure that inventory records are updated to track the location of each item.

Submission of annual inventory certification forms indicate the annual physical inventory has been performed by the administrator certifying the inventory report to be accurate. The department has set up procedures to have the administrative service assistants of the School Support Section follow up with delinquent schools to submit the certification form. Follow-up written reminders to the respective Complex Area Superintendents have resulted in 100 percent compliance.

Each request for disposal of property is reviewed to determine reasonableness for the disposal. Irregularities are followed up by our operations section with further investigation before the item is approved for disposal. For example, if a request is submitted to dispose a missing \$800 digital camera, follow-up with the school will

- d. Requires schools and offices to transfer all assets from hold files to fixed asset files prior to conducting their annual physical inventories;
- e. Establishes policies and procedures to hold personnel liable for any negligent loss of special education equipment;
- f. Provides schools and offices with better guidance on proper inventory management; and

be made unless the camera was previously reported stolen to the police.

An annual report listing items valued at \$5,000 or more is examined to segregate items which may have been erroneously valued. Follow-up with schools and offices on questionably valued items is made and corrections made as necessary.

Monthly reports of items deleted from the hold file are monitored by our operations section to minimize the potential for theft. Follow-up inquiries are made to resolve suspicious deletion of items.

The responsibility for conducting annual physical audits and following established policies and procedures is delegated to each respective school or office. Any report of potential problems in processing daily transactions, including disposals, property file adjustments and transfers of property, are followed up by our operations section contacting the respective principal, Complex Area Superintendent, or state office administrator.

In addition to routine reminders to transfer property from the hold file to the fixed asset file, our operations section staff has participated in all-day workshops at the District ITC for schools or offices interested in clearing property from their hold file. The School Support Section is assisting target schools/offices with substantial amounts (greater than \$10,000) in the hold file.

In the event material progress in decreasing the value of the hold file is not achieved within a year, written notices of the problem are sent to the principal, then Complex Area Superintendent, or state office administrator, to clear the backlog of properties in the hold file.

A draft policy is under review; a draft procedure outlining the proper safeguard of state equipment is awaiting further review before being incorporated into the FMS User Policy Guide.

Policies and procedures have been established to hold teachers receiving ISPED laptop computers personally liable for lost or stolen computers unless the following circumstances are met: 1) Police report must be filed within 10 days of the discovery of the loss; (2) Form E-9, Report of Damage or Loss to State Property, must be filed in a timely manner to file claim for reimbursement or 3) Information Resource Management Branch or CompUSA is contacted to activate tracking software to assist authorities in the recovery of the stolen computer.

In the Fall of 2003, the importance of accurate inventory recordkeeping was emphasized at workshops on all islands. Recommended decal log assignments and suggestions on how to conduct a physical inventory were also discussed.

ISPED is tracking laptops through Computrace, a theft and asset tracking system. Each laptop is equipped with programming which is activated with use of the

- g. Improves the process of redistributing laptop computers for the ISPED database.

computer, and may be used by authorities to track usage and the physical location of stolen computers.

ISPED laptop computers are no longer redistributed annually. Since laptops are assigned to an individual teacher, the special education teacher may retain his/her laptop if the employee is being transferred to another special education teacher position at another school. In order to ensure teachers have proper tools to continue entry of data to ISPED, schools with increasing enrollment may also draw from the laptop pool created with fully functioning Dell laptops whose warranties have expired.

Report Title: **Fiscal Accountability Audit of the Department of Education: Do Measures of Effectiveness Impact Funding Decisions?**
 Report No.: 03-09

RECOMMENDATIONS

1. The Board of Education should ensure that the superintendent of education:
 - a. Develops an effective system to assess the success of programs in attaining objectives. At a minimum, this should include the components of measurable objectives, related measures of effectiveness, methodical analysis and evaluation, and the budgeting process as parts of a coordinated system.
 - b. Promotes program management, which is oriented towards achieving measurable objectives, and provides adequate training to ensure appropriate performance measures are developed, used, and accurately reported.
 - c. Develops relevant, accurate, and clear measures of effectiveness serving the needs of the department as well as legislators.
 - d. Develops systems to ensure that accurate information is collected and disseminated.
 - e. Develops a coordinated system, adequately linked to the objectives of the State's budgeting system, ensuring that planning and budgeting are strengthened by systematic analysis and evaluations assessing program success and effectiveness.

ACTIONS TAKEN

Under the direction of the Board of Education the Department of Education has undertaken a series of initiatives to address the recommendations in the Auditor's report and is working on enhancing its accountability system. A new Strategic Plan has a comprehensive and focused set of measures and benchmarks. In addition, the Department of Education is producing Educational and Fiscal Accountability Trend Reports for every school and complex, as well as for the system as a whole. These reports provide a clear and transparent summary of the outcomes of the schools related to student academic achievement, safety and well being, and civic responsibility.

Report Title: **Management and Financial Audit of the Hawai'i Tourism Authority's Major Contracts**
 Report No.: 03-10

RECOMMENDATIONS

The Hawai'i Tourism Authority Board of Directors and its executive director should:

1. Improve contractor accountability by:
 - a. Holding contractors accountable for complying with their own internal policies and procedures;
 - b. Conducting periodic audits of contract expenditures;

ACTIONS TAKEN

The authority retained Nishihama & Kishida, CPA's, Inc. (N & K) to conduct a financial audit of HVCB covering January 1, 2001 to December 31, 2002, and to provide additional information regarding the findings made by the Auditor. The authority also retained Candon Consulting Group, LLC (Candon), to advise the authority on ways to improve its management and the reporting of its operational financial activities, including its oversight of HVCB and other contractors.

The authority relied upon the findings and recommendations made by N & K and Candon to use specific contract provisions. These provisions were incorporated into marketing contracts the authority executed with five contractors providing tourism marketing management services. As compared to previous marketing contracts with HVCB, the current contracts are more specific and will provide greater accountability.

The contract includes the following contract provisions:

- §3.8 (a) authorizes immediate termination if HVCB does not comply with its fiscal and travel procedures;
- §3.8(d) requires HVCB to pay \$25,000 as liquidated damages for failing to comply with its fiscal and travel policies;
- §6.4 (a) requires HVCB to operate within the budget previously approved by the authority; and,
- §6.7 requires HVCB to warrant that it will be accountable to the authority for its contract performance, and if necessary, the authority may require HVCB to change its financial reporting and evaluation system.

The contract includes the following contract provisions:

- §6.4 requires HVCB to submit monthly and quarterly reports of its contract expenditures; HVCB is also required to submit an audited financial statement, within 90 days after the end of a calendar year;
- §6.6 (b) requires HVCB to conduct an audit of its expenditures at any time upon the authority's request; and,
- §6.6 (c) provides the authority with a right to con-

- c. Placing a limit on the amount of state funds that can be used for contractors' administrative expenditures;

- d. Placing a limit on the amount of state funds that can be used for contractors' personnel expenses;

- e. Prohibiting contractors from using contract funds for legal expenses that are unrelated to the contract; and

- f. Requiring contractors to:

- 1) Record expenses in accordance with generally accepted accounting principles;

- 2) Limit state-funded expenditures to contract-related purposes;

duct an independent third-party audit.

The contract includes the following contract provisions:

- §3.1 (a) requires HVCB to submit a yearly itemized budget, for the authority's prior approval, of HVCB's monthly administrative overhead expenses;
- §4.3 provides that no more than 10 percent of total revenues from state funds, cooperative funding, and in-kind contributions shall be used for administrative expenditures; and
- §6.4 (e) itemizes the various types of expenditures that HVCB can expend for administrative overhead purposes.

The contract includes the following provisions:

- §4.3 provides that no more than 10 percent of total revenues from state funds, cooperative funding, and in-kind contributions shall be used for administrative expenditures, including the salaries, benefits, health insurance, and payroll taxes of employees performing administrative functions; and
- §6.4 (e) itemizes the various types of expenditures that HVCB can expend for administrative overhead purposes.

The contract includes the following provisions:

- §3.8 (a) (v) provides for the immediate termination of the contract if state funds are used for legal expenses unrelated to the contract; and,
- §3.8 (d) requires HVCB to pay \$25,000 in liquidated damages if it uses state funds for legal expenses unrelated to the contract.

HVCB has implemented many of the recommendations of the Candon report, including the establishment of an Audit Committee to supervise HVCB's internal audit function and the independent audit of its financial statements. HVCB's employees are also currently being trained on the requirements of GAAP.

Section 3.4(f) of the HVCB contract requires all expenses to be recorded on an accrual basis in accordance with GAAP.

Section 3.1 of the HVCB contract requires HVCB to provide an itemized annual budget for HTA's prior approval.

Section 3.5 requires HVCB to obtain HTA's approval for any change in the pre-approved budget that exceeds \$75,000.

Section 3.8 allows HTA to terminate the contract if HVCB breaches its duty to use state funds for contract purposes.

- 3) Establish an adequate contract management system that includes appropriate controls and policies and procedures over contract procurement, filing and documentation, amendments, monitoring, and evaluation;
 - 4) Provide specific information on the amount of state funds spent on personnel costs, overhead, and other administrative expenses; and
 - 5) Implement and enforce appropriate policies and procedures over the use of state funds for travel and entertainment expenses.
2. Enforce all contract provisions;
3. Improve its contract language to specify graduated penalties for non-compliance and deadline dates for submission of reports, and to require the submission of reports that contain relevant and reconcilable information that ties contractor performance to measurable objectives and outcomes specified in the contract; and
 4. Maintain and apply contracting policies and procedures and continue to conduct performance evaluations of its contractors.

RECOMMENDATIONS

1. The State and Legislature should take appropriate steps to assess the extent to which HVCB violated generally accepted accounting standards under its contracts with the Hawai'i Tourism Authority for leisure marketing and meetings, conventions and incentives marketing.

HTA has either completed or is continuing its implementation of the Candon report to improve oversight of HVCB's operations.

Section 6.7 of the HVCB contract grants HTA the right to require HVCB change its financial reporting and evaluation system.

Section 3.1(a) of the HVCB contract requires HVCB to submit an annual budget, for prior approval, of its administrative overhead expenses.

Section 4.3 states that no more than 10% of total revenues from state funds, cooperative funding, and in-kind contributions shall be used for administrative expenditures.

Section 6.4(e) itemizes the various expenses that can be considered administrative overhead.

Section 3.8 of the HVCB contract allow HTA to terminate the contract or require HVCB to pay \$35,000 as liquidated damages for violating fiscal policies related to travel and entertainment expenses.

Section 4.3 states that travel expenses in excess of \$25,000 per month must be presented to HTA for approval.

HTA's contract with HVCB has specific contract provisions to provide greater accountability for expenditure of public funds. HTA has reorganized its staff for more direct communication with HTA's marketing contractors. Financial guidance from N & K and Candon's recommendations provide a framework upon which HTA can monitor the contract.

Section 6.4 of the contract requires monthly and quarterly financial reports of expenditures, including a listing of all variances from the approved budget. HTA is also able to enforce the contract provisions through its analysis of financial reports.

The HVCB contract has provisions that provide for financial penalties; withholding of payment; time deadlines for responding to requests for information; monthly and quarterly financial reports; evaluations; and late fees for failure to submit reports.

HTA will use the Candon report recommendations, conduct an annual evaluation of its marketing contractors, and evaluate the monthly and quarterly reports.

ACTIONS TAKEN

The Governor's Office relied on the Hawai'i Tourism Authority to take appropriate actions on the recommendations made by this report, and we concur with their actions taken to resolve this matter.

Report Title: **Audit of the Department of Human Services' Electronic Benefit Transfer (EBT) Program**
 Report No.: 03-11

RECOMMENDATIONS

The Department of Human Services should:

1. Hold managers accountable for compliance with management evaluation review recommendations by monitoring and disciplining supervisors who do not conduct required case reviews;
2. Consider system-wide causes and solutions when management evaluations and quality control reviews identify problems at more than one unit;
3. Develop formal follow-up procedures to ensure that management evaluation recommendations are properly implemented, which would require:
 - a. Supervisor to complete required reviews;
 - b. Eligibility workers to delete all unnecessary alerts;
 - c. Development of a plan and timeframe detailing how and when actions will be completed to address recommendations; and
 - d. The management evaluation team to revisit sites and assess implementation of recommendations.
4. Require supervisors to use checklists when reviewing case files and to include them in the case file as evidence of supervisory review;
5. Require eligibility units to use the HAWI-generated form letter to verify rental expenses;

ACTIONS TAKEN

All units statewide have already been complying with this mandate and all Section Administrators (SAs) have been complying with the re-reviews with the exception of SAs 1 & 2 on Oahu. SAs 1 & 2 are currently being trained on how to complete a re-review and will begin reviews shortly and will be monitored by the Oahu Branch Administrator.

No new initiative has been taken for reasons stated in our original audit response. The department already considers system-wide causes and solutions when management evaluations and/or quality control identify problems at more than one unit.

Addressed in recommendation #1.

The department has not mandated a statewide clean-up of all alerts as there has never been any evidence that it is a statewide problem or that not deleting alerts creates an error prone area. The department believes that alert problems with individual sections, units and/or eligibility workers are best handled at the supervisory level on a case by case basis. The department has addressed this problem and now provides the needed follow-up to ensure compliance. As evidence of this, all responses for management evaluations conducted in CY 2003 and 2004 have been received.

The department does not have the resources necessary to revisit management evaluation sites to assess implementation of recommendations. The department believes its follow-up is sufficient to ensure that recommendations are addressed.

No new action taken in response to the audit.

The department does not believe that a HAWI generated form letter to verify rental expenses is necessary. We also noted that the department's current process for verifying rental expenses has been approved by the federal Food and Nutrition Service.

6. Improve control over EBT card inventories, ensuring that:
 - a. Voiding cards requires necessary approvals; and
 - b. Supervisors' access to EBT cards is controlled.
7. Analyze costs incurred for replacement of EBT cards, including identifying:
 - a. Costs (cards and labor) incurred for replacing cards; and
 - b. Strategies or alternatives used by other states that charge for card replacements.
8. Require the EBT section to coordinate with the department's Office of Information Technology to increase the usefulness of transaction data provided by the contractor and reproduce the even-dollar report in a more useful format;
9. Preserve the federal Food Stamp program's integrity by issuing a policy to guide the EBT section in identifying participants suspected of using EBT cards for unauthorized activities; and
10. Regularly review the list of authorized EBT system users and last log-in activity report to ensure system security. The department should require the contractor to clearly identify the user's full name on the list.

The department revised the EBT Card Issuance Request form, DHS 1490, and issued it on August 15, 2003. This was done simultaneously with our audit report.

For reasons that were stated in the department's original response to the State Auditor's recommendations, no actions have been taken by the department.

After further discussions with the department's Office of Information Technology, the department's original comments about the voluminous size of the report continue to be a factor in the development of utilizing this data.

The department is continuing to pursue this issue by creating a third position for the EBT section. However, after the 2004 Legislature deleted this vacant position, the division has had to start over with the creation of this third EBT position, which it currently is doing.

The department's access to their EBT system is changed to a web-based Browser system, which will allow for new reports. The department is currently working with its EBT contractor for a monthly report which will identify the current EBT users.

Report Title: **Follow-Up Audit of the Child Protective Services System**
 Report No.: 03-12

RECOMMENDATIONS

1. The Department of Human Services should clarify, strengthen, and enforce existing management controls to ensure that all child abuse and neglect reports are investigated as appropriate.

Specifically, the department should:

- a. Provide training to all Child Welfare Services Branch administrators, supervisors, and staff on the necessity of management controls;
- b. Provide and require increased training and oversight to ensure that risk assessment matrices are properly and consistently used during case intake, assessment, and case management. Supervisors should hold social workers accountable when matrices are not used as required;

ACTIONS TAKEN

The importance of management reports and management controls was re-emphasized in the Child Welfare Services Branch Staff Meeting with Section Administrators on January 7, 2004.

The department is updating its intake, safety and risk assessment tool. As part of implementing the new process, training will be provided by the National Resource Center on Child Maltreatment by February 2005 as well as ongoing quality assurance through the new supervisory case reviews and case reviews similar

- c. Track all cases referred to investigation and ensure that dispositions are made within 60 days. Supervisors should hold investigators who fail to comply with this policy accountable;
 - d. Clarify that all supervisory reviews of dispositions must be indicated on only one CPSS screen to eliminate confusion and errors, and to promote consistency; and
 - e. Ensure that section administrators hold supervisors accountable for monitoring and reviewing intake reports, risk assessment matrices, 60-day disposition deadlines, and case dispositions.
2. The Child Welfare Services Branch should improve intra-agency and interagency communication.

Specifically, the branch should:

- a. Hold supervisors accountable for monitoring and reviewing case records, including electronic records;
 - b. Carefully monitor voluntary foster custody placements to ensure that Family Court jurisdiction is sought when required. Supervisors should be held accountable for ensuring all voluntary foster custody agreements are properly executed; and
 - c. Ensure all cases that may involve criminal activity are referred to the appropriate county police department.
3. The department should initiate filing for permanency hearings when families are unwilling or unable to complete family service plans. In addition, the department must ensure that permanency planning begins within 12 months after a child's placement in foster care.
4. The department should improve its management of contracted services. Specifically, the department should:
- a. Identify in a monthly master list all children and families authorized to receive services from each private provider. Contract monitors should reconcile this list to contractor's invoices and activity reports prior to authorizing payments;
 - b. Compel caseworkers to track all children and families receiving services and require that

to the federal Child and Family Services Review (CFSR) that will be conducted on an ongoing basis.

Cases are being tracked by administrators and supervisors and emphasis is being given to this area as part of our new continuous quality assurance plan.

Supervisory reviews of investigative dispositions are contained in the CU/CD52 screens.

The department is moving toward this goal with our supervisory and case reviews. This is part of our new continuous quality assurance plan.

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This is being done now. Printouts are sent to the units. The printout reminds workers of the 90 day and 180 day timelines. Supervisors review the list and instruct the workers to file petitions for foster custody if the deadline is approaching.

This continues to be done.

The intent of the federal regulation to determine a permanency plan for children within 12 months is not to prematurely force children into guardianship or adoption instead of family reunification when a period longer than 12 months would allow the children to be reunited in a safe family home. Service plans that allow families more than 12 months are not necessarily outside the federal guidelines. The department petitions the court for permanency when there is a determination that the child's family cannot or will not provide a safe family home for the child within a reasonable time.

The department believes this recommendation is unnecessary and too costly to implement.

As part of our contracted services, providers are required to submit regular reports to the caseworkers. Case-

regular progress reports be submitted by service providers and reviewed by caseworkers; and

- c. Review utilization levels for each private provider annually after the first contract year and make adjustments for the upcoming contract year to ensure that costs do not exceed usage.

- 5. The department should hold staff from the Child Welfare Services Branch and the Benefit, Employment and Support Services Division accountable for preventing overpayments of temporary assistance to families whose children are placed in foster care, and payments to foster care providers when children are removed from their care.

Specifically, the department should:

- a. Enforce the requirement that Child Welfare Services staff notify Foster Care-Income Maintenance Unit workers within two working days of a child's removal from the family. Require Foster Care-Income Maintenance Unit workers to notify Benefit, Employment and Support Services Division income maintenance workers within two working days of a child's removal from the family home when the family is receiving Temporary Assistance to Needy Families. Moreover, ensure that Benefit, Employment and Support Services Division income maintenance workers adjust assistance payments and flag overpayments on HAWI; and

- b. Enforce the requirement that social workers document children's foster care placement and removal in their case files, and update CPSS with placement information. In addition, re-

workers are responsible for obtaining reports on the children and families in their individual caseloads.

The department is in the process of implementing performance-based contracting by July 1, 2005. Accountability under the new performance-based contracts will be by utilization and outcomes, which will be reviewed quarterly. Providers that are under performing our contract measures in any quarter, as defined in the contract, will be required to implement corrective action plans. Contract language allows adjustments at any time. If the corrective action plans are unsuccessful by specified deadlines, the State may adjust contract funding or terminate the contract.

Unit supervisors expect the notice of removal to be completed and sent to the Foster Care-Income Maintenance (FC-IM) Unit within two working days of a child's removal from the family.

The FC-IM Unit supervisor receives and reviews a monthly CWS inventory report of all children in foster care to see whether there are children on the list who have not been referred for IV-E determination.

BESSD has recently given SSD/CWS improved access to BESSD's HAWI computer system. This allows the CWS worker to review his/her case to see whether the child is receiving assistance from BESSD. If so, CWS notifies the BESSD worker.

BESSD is currently developing a form for CWS to use to request medical coverage for foster children and to notify BESSD that a child has been placed in foster care. This form will be used to request removal from the BESSD budget if necessary and to request medical assistance. The form will go to the appropriate BESSD unit and MQD unit. The MQD unit will also review the request to see if the BESSD unit was notified and if the child was correctly removed from the budget. If not, MQD will also contact the BESSD unit. The medical case will not be opened until the child has been removed from the BESSD budget. When the child is removed and medical established, the form will be returned to CWS confirming this information. The form is to be filed in the foster care record. This process should be finalized and implemented by the end of 2004.

Supervisors have supervisory conferences with social workers regarding their cases and to monitor social worker's client contacts. As part of our quality assurance, screens have been created in CPSS that function

quire social workers to routinely contact foster children to ensure that payments do not continue to families after a child has left a foster home. It is the role of the assigned staff to complete the forms and CPSS screens for a child's placement and removal. The unit supervisor monitors the assigned staff's work to make sure that this is done and updated.

6. The department should ensure that all potential Title IV-E funds are captured and not lost.

Specifically, the department should:

- a. Provide ongoing training to Title IV-E staff to ensure that procedures are followed, deadlines are emphasized, and new methodologies are incorporated for all components of Title IV-E determination; and
- b. Track all children placed in foster care to ensure they are referred for Title IV-E eligibility determination within two days and those determinations do not exceed the 180-day limit.

as supervisory tools. The screens capture whether the SW is making monthly contacts with CWS children and families. Social worker visits will be closely monitored as we respond to areas needing improvement identified by the Federal CFSR.

In February 2004 and September 2004, Title IV-E staff attended trainings on the use of the Preponderance of the Evidence Method for Title IV-E determination. The trainings emphasized procedures, deadlines, and new methodology for Title IV-E determination.

All children are referred for eligibility determination within two days. The two-day notification timeline is an internal procedure, and the 180-day eligibility determination deadline refers only to court documents, not to the overall eligibility determination that can be accomplished within a two-year period for claiming federal funds.

Report Title: Audit of Kalaupapa Settlement Operations and Expenditures

Report No.: 03-15

RECOMMENDATIONS

1. The director of health should ensure that the department develops appropriate Hawai'i Administrative Rules that specifically address patients' non-medical needs and other appropriate concerns.
2. The department should draft a formal policies and procedures manual for Kalaupapa Settlement, which should include, but not be limited to, settlement rules, inventory controls, food credit program limitations, and employee benefits allotted beyond those required by collective bargaining agreements.

ACTIONS TAKEN

A Kalaupapa community meeting was held on January 8, 2004 to discuss the pros and cons of creating administrative rules or internal policies to address some deficiencies identified in the audit. It was agreed that rules may sometimes, but not always, be the best method to address the needs of the Kalaupapa community. The majority of the time program policies would be more effective to address patient concerns.

Before this audit was completed the department had prepared, in August 2003, a manual of its policies and procedures. This manual, assembled by the Kalaupapa administrator, was provided to the Patient Advisory Council to address the patients' frustration of not knowing the policies and procedures of Kalaupapa Settlement. After the audit the department reviewed and updated all policies and procedures mentioned in the audit. Examples of updates include store operations and child visitation policies.

The department is working with the attorney general's office on a policy to address the ownership of patient beach houses. New and amended policies are provided to the Patient Advisory Council as they are adopted. The department is currently recruiting a planner who will amend as well as develop new policies and procedures.

Report Title: Audit of the Department of Health's Administration of A Statewide Solid Waste Program and Assessment of Related Land Use Policies
Report No.: 04-01

RECOMMENDATIONS

1. The Department of Health should fulfill all of its responsibilities under Chapter 342G and Chapter 342H, HRS, by:
 - a. Inspecting facilities on a regular basis;
 - b. Developing a training program for landfill operators, as well as its own employees;
 - c. Ensuring that the state and county integrated solid waste management plans are revised and submitted as required;

ACTIONS TAKEN

The department's priority is illegal facilities and complaints. As of November 2004 the solid waste program received over 270 complaints which average as 90 complaints for each of our three inspectors. This exceeds the number of complaints for 2003. We are making every attempt to respond to each and every complaint we receive and are inspecting every illegal facility that is brought to our attention. As each illegal facility requires cleanup actions to be implemented, multiple inspections occur at these sites.

We have conducted over 80 compliance inspections of permitted facilities as of September 30, 2004. We typically select a given type of facility (and sometimes a given island) to focus on a given year and conduct inspections on this selection. This type of compliance inspection selection provides for a level playing field for competing facilities.

As discussed during the audit, the department was in the process of revising the training program from external contracts to internal training sessions based on the recommendations of the Landfill Operations Workgroup. The Landfill Operations Workgroup, which is made up of landfill managers throughout the state, discusses proper management techniques and procedures to meet regulatory requirements.

During calendar year 2004, the department has so far conducted three landfill training sessions for landfill operators.

Regarding training for the department's solid waste staff, the staff has been given the opportunity to attend six classes within the state, as well as three conferences or technical training sessions out-of-state. Training sessions have ranged from enforcement to sampling techniques to risk communication.

Enforcement on the submission of county integrated management plans for which state funding is not provided is considered to be an "unfunded mandate" and, therefore, unconstitutional. The auditor's report stated that funding for planned revisions is available within the department's expenditure ceiling but we believe that assessment was incorrect. The solid waste program only receives about \$500,000 per year to operate its primary regulatory and planning functions. The remaining funding in the environmental management special fund is statutorily limited in use to the glass

- d. Ensuring that required facility reports are submitted on time; and
 - e. Pursuing enforcement action when necessary.
2. The department should develop a database or other tracking system that will assist it in maintaining facility files, enforcing permit and report deadlines, and allowing for the easier and faster exchange of information within the department and between the department and the counties.

advanced disposal fee and tire programs. It is from this \$500,000/year budget that funding can be made available to the counties. The state would need to make available about \$1.25 M every 5 years which accounts for 50 percent of the entire budget over a 5 year period, leaving only \$250,000 per year to fund 10 positions and the operating budget of the solid waste program.

Current funding does not allow the department to fully fund the counties' solid waste management plans. Our plan is to provide partial funding to the counties for the development of the plans during FY 2003-04.

Until the solid waste program receives additional funding such that the program can fully fund the counties' plans, it will be difficult for the department to enforce on the lack of county submissions.

Annual reports are due to the solid waste program by July 31 for the preceding fiscal year, so that state waste diversion rates may be calculated. Reminder notices are given to permitted solid waste management facilities prior to the due date. If necessary, followup calls are made to the facilities.

Enforcement action is pursued when deemed necessary by the department. The solid waste program first attempts to work with the facility (whether illegal or permitted) to come into compliance. If necessary, informal enforcement (warning letters) and then formal enforcement (notice of violations and order) are pursued. The program is not adverse to the idea of using enforcement action when needed.

The Environmental Health Administration of the Hawai'i Department of Health, which includes the solid waste program, was awarded a One Stop Grant under the U.S. Environmental Protection Agency's One Stop Program to improve information management within and among all of its environmental programs. To achieve this goal the Environmental Health Administration contracted with American Management Systems to assess existing systems and to create an information management blueprint for making improvements. The blueprint includes facility tracking, permit tracking, environmental reporting, complaint management, and enforcement modules. The modules will be implemented using a common information management framework and information management standards. The exchange of information will be improved through the use of a common portal to the modules. The plan is near finalization and the implementation phase of the One Stop project is expected to begin shortly.
 3. The department should also monitor remaining capacities of all landfills in the state through enforcement of solid waste permit requirements and enforcement of requirements for integrated solid waste management planning by the counties.

The enforcement of solid waste management permits will not ensure adequate landfill capacity, as permits may be modified to allow for landfill expansions, and permit expirations do not necessarily reflect the life of the landfill. The more appropriate means to monitor available landfill capacity is to enforce the development and implementation of county integrated solid waste management plans. However, as discussed

4. The department and the counties must initiate the process of siting, planning, and permitting a new landfill many years before the facility is actually needed.

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above, it is difficult to enforce the submission of plans without state funding, as it is construed to be an "unfunded mandate," and, therefore, unconstitutional.

The department is not responsible for landfill siting. While the department's solid waste program is responsible for evaluating and permitting landfill sites and operations, the responsibility of landfill siting lies with the counties and/or private entities looking to construct the landfill. The department is able to provide technical assistance during the selection process to ensure the protection of public health and the environment. The department does not have a statutory mandate to select specific landfill sites for the counties.

ACTIONS TAKEN

The County of Maui, Solid Waste Division, submitted an application for a solid waste permit in November 1, 2004. The permit is for operations relating to Phase IV-A, and the entrance facility at Central Maui Landfill. Phase IV-A is a (10) acre cell. A request for funding for FY2006 relates to the design and construction of Phase IV-B (8 acre cell).

Anticipated life for total phases A and B is (10) years. The division also plans to request funding in FY2007 for land purchase for phase V and VI. Total life expectancy is about 25 to 30 for this area.

The division also requested funding to create a 5 to 7 year integrated solid waste plan.

ACTIONS TAKEN

The County of Kauai completed a landfill siting study in March 2001 and has continued discussions with owners of the sites under consideration. Funding is budgeted to perform planning tasks (engineering studies and environmental impact studies) once the new site is selected. The administration's intent is to immediately pursue development and permitting of the site once planning studies are conclusive.

ACTIONS TAKEN

The County of Hawai'i went through the siting, planning, environmental assessment, and permitting for the West Hawai'i Sanitary Landfill in South Kohala in the late 1980s/early 1990s. The County of Hawai'i presently has the largest solid waste management capacity in the State of Hawai'i. It is in the process of planning, permitting, and constructing a major recycling facility to, among other things, extend the life of the South Hilo and West Hawai'i Sanitary Landfills. The county has implemented many of the components provided in the Update to the Integrated Solid Waste Management Plan for the county completed in December 2002 to provide a comprehensive system for dealing with solid wastes in the most efficient and cost-effective manner. The County of Hawai'i currently has no plans on siting a new landfill.

RECOMMENDATIONS

1. The department and the counties must initiate the process of siting, planning, and permitting a new landfill many years before the facility is actually needed.

ACTIONS TAKEN

The City and County of Honolulu decided on December 1, 2004, that Waimanalo Gulch Sanitary Landfill will continue as the City's municipal solid waste landfill. Available capacity at that site can accommodate refuse for over fifteen years at the present inflow rate. We intend to significantly decrease inflow rates through the expansion of H-POWER, increase recycling, and diversion of specific materials to other disposal sources, so the site life can be extended further.

Report Title: **Management Audit of the Public Utilities Commission and the Division of Consumer Advocacy**

Report No.: 04-02

RECOMMENDATIONS

1. The Public Utilities Commission and the Division of Consumer Advocacy should engage in strategic planning. Specifically:
 - a. The Public Utilities Commission's chair and administrative director should develop a strategic plan for the commission; and
 - b. The Department of Commerce and Consumer Affairs' director should fill the Division of Consumer Advocacy's executive director position. The departmental director, as consumer advocate, and the division's executive director should then develop a strategic plan for the division.

Both agencies' planning processes should include all relevant stakeholders, including the agency, regulated companies, and utility consumers.

2. The Public Utilities Commission and the Division of Consumer Advocacy should make addressing their respective agency's personnel management issues a priority. This should be undertaken by the director of finance and the commission's chair and administrative director, and by the director of commerce and consumer affairs and the division's executive director, respectively.
3. The commission and division should collaborate and hire a consultant to develop an information system that shares common information and processes but keeps separate information secured.

ACTIONS TAKEN

The division's executive director position was filled on May 17, 2004. The executive director and his staff are in the process of preparing a draft strategic plan for the division which will be distributed to relevant stakeholders for comment and input. In addition to representing ratepayers before the commission, the plan will also emphasize the importance of the division's role in consumer education, access to information, and in advocating for consumers in other forums.

See above.

The division's executive director is currently working with the department's personnel officer and the Department of Human Resources Development to re-describe several positions and to reorganize the division's personnel structure. This will provide more flexibility and allow the division to better recruit and retain well-qualified staff. The division has recently filled its vacant supervising attorney and integrated resource planning analyst positions and is in the process of recruiting for staff attorney and auditor positions.

The commission and division have been collaborating in the development and acquisition of such a document management system. We have attended several presentations by vendors to obtain information about the available options. We are currently working with

4. The division should conduct an assessment of the need and value of its own separate set of rules to supplement or fill in gaps in the commission's rules.

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 - a. The Public Utilities Commission's chair and administrative director should develop a strategic plan for the commission; and
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the commission to determine the specifics of a system that can best serve our combined needs. The commission will be issuing a request for proposals for the shared system by the end of 2004.

The need and value of adopting division administrative rules is being assessed. One area currently being explored is the division's role in assisting consumers with complaints.

ACTIONS TAKEN

In 2003, the commission commenced a strategic planning process. The commission prepared a strategic plan dated November 14, 2003, pursuant to Act 100 (SLH 1999), submitted it to the Legislature, and included its goals and long-range and short-range plans in its FY2002-03 Annual Report. Implementation of the strategic plan commenced in FY2003-04. The commission plans to evaluate and update its strategic plan annually.

The commission has initiated a number of proceedings and activities, involving all relevant stakeholders, to consider major issues affecting its policies and planning, emerging from:

- Current developments in technology;
- Changing markets, economic conditions, federal and state requirements and consumer needs; and
- Environmental and national security concerns.

The commission has focused on and will continue to focus on filling position vacancies. The director of finance has stated it will support and work with the commission in its efforts. Since the Auditor's report was issued, commission vacancies have reduced by approximately 50 percent due to the filling of three research section positions, an auditor II position, the chief engineer position, and a clerical position. In addition, the commission has received necessary approvals to establish a data processing/ systems analyst position and is beginning the recruiting process. Additional efforts to address required personnel staffing levels are also underway.

The commission and the division have held meetings to review our respective needs and potential solutions, and are working collaboratively to develop and share a common, secure document management and infor-

4. The commission should:

- a. Improve its complaints handling process;
- b. Adopt administrative rules specifying application approval deadlines as required by Section 91-13.5, HRS;
- c. Include long- and short-range plans in its annual report to the Legislature as required by Section 269-5, HRS; and
- d. Fulfill its policy-making function as required by Sections 269-5 and 269-7.5(b), HRS.

mation system. The commission and the division plan to issue a request for proposals by the end of the year.

The commission has updated its complaint handling process to resolve complaints more efficiently and consistently. To continually assess the process, it now concludes with a survey, mailed to complainants, asking them for feedback on the commission staff's handling of their complaint. The initial 56 survey responses indicate overwhelming customer satisfaction with the resolution process. The commission also tracks inquiries concerning public utilities as required by Section 269-55, HRS.

The commission is currently drafting rules specifying application approval deadlines, and will commence the rulemaking process to adopt such rules.

The commission included both long- and short-range goals and plans in its FY 2002-03 annual report, issued December 2003, and will continue to include updated plans in its annual reports.

While the commission regulates industries as required by law, it does and will carefully evaluate ways to streamline the regulatory process. For example, this year the commission waived certain regulatory requirements for wireless telecommunications carriers and implemented a "zone of reasonableness" concept of ratemaking for motor carriers - allowing carriers to raise or lower their rates within a zone without being required to show detailed financial information.

Report Title: **Audit of Selected Procurement, Human Resource, and Fiscal Issues of the Hawai'i Health Systems Corporation**

Report No.: 04-03

RECOMMENDATIONS

- 1. The corporation's management should strengthen contract and capital asset management practices. Specifically, it should:
 - a. Implement and enforce procurement procedures consistent with open competitive procurement;

ACTIONS TAKEN

Each region and the corporate office has contract administrators who are responsible for processing all contract and procurement actions in accordance with HHSC's procurement policies and procedures. HHSC's policies and procedures are made available to all employees of the corporation on the corporation's network. Further, the corporate procurement staff performs an acquisition management review of procurement processing at each of the regions on an annual basis. The results of such reviews are reported to the Chief Operating Officer/Chief Financial Officer (COO/CFO). Each region is required to report back to the COO/CFO and the Corporate Procurement Officer on steps taken to correct any deficiencies as well as a plan of action to prevent future reoccurrences of such deficiencies.

- b. Ensure that hiring, including contracts for personal services, comply with prudent business practices and applicable laws and regulations;
 - c. Develop and maintain a long-term capital spending plan;
 - d. Ensure that analyses and projections submitted for capital investments are performed competently and are accurate and complete;
 - e. To the extent possible, identify and submit for legislative approval major infrastructure projects for financing via general obligations bonds; and
 - f. Establish, at a minimum, uniform standards for accounting for and safeguarding capital assets.
2. The Board of Directors of the Hawai'i Health Systems Corporation should:
- a. Ensure, through improved procurement policies and strengthened oversight, that the corporation's procurement practices are consistent with the goals of government accountability and procurement practices;

Management is in the process of considering the addition of an internal audit capability to the system headquarters in an effort to further advance review and accountability.

All personal services contract requests require the approval of the HHSC President/CEO after reviews by the COO/CFO, human resources, and legal as applicable. This review, along with the approval authority at the regions, is responsible to ensure that contracts are prudent and necessary and meet applicable laws and regulations.

HHSC has submitted a six-year capital spending plan covering fiscal years 2006 through 2011 to the Department of Budget and Finance. The plan was briefed to the board, community advisory chairs, physician advisory leaders and key staff at the October 26, 2004 HHSC Board meeting off-site.

Pro forma analysis for capital investment projects are prepared by the Regional Chief Financial Officers and reviewed by both the corporate controller and COO/CFO before presentation to the board of directors for approval. The corporation has also engaged third-party financial consultants to evaluate projects where the corporation does not have the expertise to perform the evaluation on its own. The work products of these consultants are also reviewed by the corporate controller and COO/CFO before presentation to the board of directors for approval.

HHSC has submitted to B&F a six-year capital spending plan covering fiscal years 2006-2011. HHSC is requesting that these projects be funded through general obligation bonds.

HHSC has established both a capitalization threshold and depreciation policy for capital assets. The capitalization threshold mirrors that of the state of \$5,000. The corporation's depreciation policy requires that each facility depreciate assets in accordance with the American Hospital Association's estimated useful lives of depreciable hospital assets. Further, the corporation requires each facility to perform an annual inventory of capital assets, and to reconcile the results of that inventory to its capital assets records on the general ledger.

The board of directors has charged its monthly Finance, Information Systems, and Audit Committee (FISAC) to evaluate all Corporation policies and procedures relating to procurement and to scrutinize all contracts that meet the board approval threshold. While the board agrees that the corporation's procurement policies should be in line with the standards of public accountability, the board believes that HHSC's current procurement policies and procedures provide the flexibility and efficiency to operate effectively in today's business environment where the corporation is com-

- b. Develop and implement policies for hiring independent contractors that ensure compliance with applicable state and federal laws;
- c. Reassess its termination and separation policies for consistency with government practices in light of the corporation's dependence on legislative support; and
- d. Establish and enforce accountability standards for both competence and reasonable accuracy in analyses and projections presented in support of investments in infrastructure and service additions.

peting with private hospitals and other businesses for the best products at the best prices available. The board does not believe that the state procurement code gives the HHSC the flexibility to ensure that necessary goods and services are delivered to its facilities in order to provide quality health care to its health care communities.

HHSC has developed internal policies and procedures to review all requests for personal service contracts prior to approval. The procedures provide that designated individuals are responsible for ensuring compliance with applicable laws and regulations before obtaining the President/CEO's approval to initiate a contract. The appropriate procurement contracting staff is responsible to ensure compliance with applicable laws as it pertains to the contract language prior to obtaining approval from the contract authority.

The board of directors continues to support the current termination and separation practices that are necessary components in the retention of key personnel and the ability to resolve issues. The practices on the separation policies result from an arms-length approach taken by the board to develop a conservative compensation and retention program with the advice and recommendations from an independent consultant. The termination and separation agreement policies are exercised only in rare circumstances. Thus it does not have an impact on the current financial situation faced by HHSC.

The board has charged FISAC to evaluate all pro forma financial analyses on the feasibility of proposed capital investment projects and service line additions. The FISAC, composed of board members with finance or accounting backgrounds, requires that any new service line or capital investment that was not contemplated in the corporation's capital budget be supported by a pro forma financial analysis. FISAC has, on occasion, requested that an independent third party analysis be done before recommending approval to the board. The board realizes the additional burden that could fall on the state should significant new service lines or capital additions fail to meet its pro forma results, and the board requires management to report back on the results of certain significant investments. One such investment is the imaging service initiatives at Hilo Medical Center, Maui Memorial Medical Center, and Kona Community Hospital.

Report Title: **Study of Separation Incentives Provided to Public Employees Under Act 253 of the 2000 Legislature**
 Report No.: 04-04

RECOMMENDATIONS

1. The Departments of Human Resources Development and Budget and Finance should:

ACTIONS TAKEN

We respectfully disagreed with the Auditor's findings and related recommendations that the Departments of Human Resources Development and Budget and

- a. Collaborate with all government jurisdictions to ensure that proper guidelines are developed to implement the separation incentives program;
 - b. Ensure that employees who elect to participate in the separation incentives program do not reemploy with any public jurisdictions without first forfeiting the benefits received under Act 253;
 - c. Properly monitor the workforce restructuring activities of the agencies participating in the separation incentives program and ensure that abolished positions are removed from appropriate budget and personnel files;
 - d. Collaborate with all government jurisdictions to determine whether workforce restructuring plans are being properly implemented by the agencies that submit them and the overall effectiveness of the plans after implementation; and
 - e. Ensure that unjustified payments of special incentive retirement benefits are recovered from employees who reemploy with any public jurisdiction.
2. The Department of Human Resources Development should ensure that its reports to the Legislature include a description of how the new workforce structures will more efficiently serve the needs of agencies' clients and of appropriate criteria to measure the new workforce structures' effectiveness.

RECOMMENDATIONS

Finance are statutorily responsible for other Hawai'i public jurisdictions that elect to utilize the Separation Incentives law. A legislative proposal will be submitted in the upcoming 2005 Legislative Session to clarify the existing statutes and define our administrative program functions and responsibilities.

Section 122, Part V of Act 253, SLH 2000, already requires that, "the chief executive or other appropriate authority of the respective jurisdictions shall ensure that approval of its respective legislative body is obtained, if required, before offering the special retirement incentive under section 115". DHRD has already issued appropriate guidelines.

DHRD has addressed its monitoring of employment of separation incentives benefits recipients through various means. This includes, but is not limited to: 1) ongoing coordination and dissemination of recipient names of Act 253 retirees with the Employees' Retirement System, all public jurisdictions and all executive branch department heads; 2) ongoing coordination and dissemination of cash buyout recipients' names with all executive branch department heads; and 3) periodic electronic checks by pay periods conducted by DAGS payroll and their notice to appropriate executive branch agencies.

This is properly monitored by the affected departments in the executive branch, and the Departments of Budget and Finance and Human Resources Development.

The Departments of Human Resources Development and Budget and Finance do not have any legal authority or oversight on the staffing activities, including workforce restructuring plans, conducted in other Hawai'i public jurisdictions, including the Hawai'i Health Systems Corporation.

This responsibility is performed by the Employees' Retirement System and their Board of Trustees. The Employees' Retirement System will also advise the appropriate jurisdictions of any corrective actions taken with an Act 253 retiree.

This will be addressed in our legislative proposal to amend Section 120 of Part V, Act 253. Clarification is needed as reduction-in-force may result from lack of funds, lack of work, lack of need or any legitimate reasons, including decisions to restructure program functions and services.

ACTIONS TAKEN

The Department of Budget and Finance believes the Department of Human Resources Development (DHRD) is the lead agency for the implementation of separation incentives. In general, we concur with the comments provided by DHRD and would emphasize that other jurisdictions are not the responsibility of our

two agencies. The administration is submitting legislation this session, relating to separation incentives, to clarify that executive branch authority with respect to separation incentives does not extend to departments or agencies in other jurisdictions.

All workforce restructuring activities involving separation incentive provisions are carefully monitored by our department, and abolished positions are identified. Depending on which option is selected by the individual (cash buyout or retirement), this information is disseminated to all appropriate agencies and jurisdictions.

Report Title: **Financial Audit of the Department of Health**
 Report No.: 04-05

RECOMMENDATIONS

We recommend that the department adhere to the procurement codes and established policies and procedures for the procurement of goods and services. Specifically, the department should ensure that required verbal or written quotations are obtained prior to executing small purchase procurements and that adequate notification is given to the public before procuring a restrictive purchase of service contract. We also recommend that an appropriate-level management be responsible for overseeing the department's procurement process. This person should ensure compliance with the procurement codes and conduct periodic audits of the department's procurement functions.

We recommend that the department:

- Establish formal policies and procedures over its various contract management functions for use by the department's programs/divisions;
- Provide employees with formalized contract management training to familiarize employees with best practice ideas and techniques relating to contract execution, monitoring contractor performance, and contract payment processing;

ACTIONS TAKEN

The department has implemented an initiative to provide training to our public health administrative officers for improved business processes and financial management. One of the work groups being convened focuses on contract management and is working to provide standard departmental policies and procedures. The involvement of support and program administrative staff in this work group will allow for the establishment of broad policies with more specific guidelines to benefit the unique and diverse contracting requirements of the many programs of the department. As previously stated, the department does have standard boilerplate language for many of the contract provisions such as compensation and payment, general and special conditions, and other standard language that is currently used.

The department's contract specialist continues to provide training to new programs on contract administration. In addition, training workshops offered by the State Procurement Office (SPO) on Chapters 103D and 103F are well attended on a regular basis. This SPO training program provides assistance in basic procurement and writing of Requests for Proposals, evaluation of proposals, Administrative Rules changes,

- Consider the effectiveness of contract management capabilities when conducting employee performance evaluations;
- Formally execute contracts prior to the commencement of contracted services; and
- Ensure that contractor performance and invoices are properly reviewed before contract payments are made.

We recommend that the department ensure all required federal financial reports are submitted within required deadlines. This can be accomplished by implementing a checklist system to remind personnel of various reporting deadlines. We also recommend that appropriate-level management be responsible for monitoring each federal program's reporting process to ensure that proper staffing is available and reports are prepared, reviewed, and submitted on a timely basis.

We recommend that the department:

- Adhere to the State's policy of unencumbering funds when contracts and purchase orders are fulfilled, closed, or become inactive;
- Establish formal policies and procedures to monitor outstanding encumbrances. Specifically, the department should require that outstanding encumbrances be periodically evaluated by both the fiscal office and each division/office to ensure that all encumbrances relate to valid, ongoing commitments; and
- Promptly identify and unencumber unspent funds related to contracts and purchase orders that are no longer active.

We recommend that the department:

- Perform periodic, unannounced reviews of each petty cash account, including surprise cash counts. An employee independent of the petty cash process should perform these reviews.
- Adhere to established policies requiring programs and divisions to prepare and submit reconciliations of petty cash accounts at least semi-annually. We further recommend that the department consider requiring the preparation and submission of petty cash reconciliations upon each request for replenishment

and other problematic areas. The most recent training session was held on August 11, 2004.

The department managers consider the contract management capabilities of those employees who are responsible for such duties.

The department requires that no services are provided prior to the notice to proceed date on any and all executed contracts.

The department has reminded all program managers to ensure that the contractual services and deliverables have been satisfactorily provided by the contractor prior to contract payment.

The department is adhering to the State's policy of unencumbering funds as required.

The fiscal officer periodically monitors and evaluates outstanding encumbrances utilizing the outstanding encumbrance report and cancels those transactions that are no longer required. In addition, the fiscal officer identifies balances older than three fiscal years and asks the programs for approval to cancel the contract balances. The proper forms are then prepared and sent to DAGS Pre-Audit Division for disposition.

Claims encumbrances on purchase orders for general, special, revolving and trust funds from the previous fiscal year are monitored by the fiscal officer and the balances not needed are lapsed at June 30 of the next fiscal year.

Due to the lack of accounting and fiscal staff, a request has been made to provide an additional accountant position as well as a procurement specialist in the Fiscal Services unit to provide this review. In lieu of having sufficient personnel to do these unannounced cash counts, statements of accountability are being used to control these funds.

The department has implemented the use of statements of accountability that all petty cash funds programs must submit twice each year. One warning letter is sent to programs late with these submittals and if the statements are not provided by the deadline, replenishment requests will be denied, and the

ishment. If reconciliations are not prepared and submitted, the Administrative Services Office should not process the replenishment request.

petty cash fund must be returned to the Administrative Services Office.

Report Title: **Financial Audit of the Department of Defense**
Report No.: 04-06

RECOMMENDATIONS

The department should ensure that adequate supporting documentation is maintained for the capital assets to support the propriety of these assets. The department should also ensure that the capital assets are properly accounted for by department staff, and their work is reviewed and approved by the appropriate supervisor. Finally, the department should commit to a deadline in implementing the retroactive infrastructure asset requirements of GASB Statement No. 34.

We recommend that the department:

1. Comply with the Hawai'i Public Procurement Code and applicable procurement rules. Specifically, the department should ensure that:
 - a. All required documentation are properly filed and retained in the contract files;
 - b. The list of qualified persons for professional services is completed annually by the review committee designated by the department director;
 - c. All bid envelopes are time-stamped, or approval is obtained from the chief procurement officer to utilize another method;
 - d. Proper documentation is retained in the contract files with the department's justification for obtaining fewer than three bids for the selection of a small purchase vendor; and
 - e. A minimum of three employees are represented on the screening committee for professional service procurement, and their names, qualifications, and credentials are properly documented on the evaluation forms.
2. Ensure contracts are properly executed prior to the commencement of the contracted work.

ACTIONS TAKEN

All construction work in progress is monitored by inventory custodians for the department's facilities to insure that improvements and additions are recorded properly. A "no extension" deadline was implemented for all property custodians to confirm the inventory assigned to them. Additional employees have been trained to process inventory sheets and review the entries.

A consultant was hired to document infrastructure costs and implement GASB No. 34 requirements by June 30, 2006.

Standard Operating Procedures (SOP) were developed to address what documentation needs to be in the contract files and to follow the retention policies for the State.

A log of professional consultant applications received will be generated annually and included in the SOP. This log will be reviewed and monitored at the beginning of each fiscal year by the contract and engineering office

A locked bid drop box is used to receive competitive bid submittals in which bids are time stamped and secured until bid opening. The department obtained approval from the State Procurement Officer to use an alternate time-stamp method for oversized bid proposals.

Purchasing technicians complete a record of small purchase form in its entirety or refer to and secure attachments by stapling to prevent the separation of related documents from the document stating the reason and justification why the award was made.

A list of names of individuals with their qualifications and credentials and their alternatives will be submitted to the Adjutant General for approval. Once approved, it will be part of these individuals' responsibility to sit on the screening committee.

A contract request form has been created to clearly define approvals and acts to initiate the contract process.

3. Provide appropriate periodic training to ensure the Engineering Office and other personnel involved in the procurement process are familiar with the procurement requirements.

We recommend that the department include in the instructions for the Request for Personnel Action form procedures to ensure that changes in the allocation of payroll wages among appropriation codes are processed on a timely basis. The department should also establish adequate procedures to ensure the proper monitoring of this process.

We recommend that the department establish and enforce formal written procedures to delineate the responsibilities and deadlines for completing and submitting required reports.

The date that the vendor received a contract for review and signature is now recorded and documented. There is on-site training of users of the contract and procurement process as well as the development of a departmental training program to improve awareness throughout the department. We continue to work with the State Procurement Office to establish ways to improve our contract execution under the procurement and contracting process.

The department continues to provide appropriate training to ensure that the fiduciary responsibilities in the procurement of goods and services are fairly and professionally performed.

The department has reviewed the instructions and made any necessary changes.

Changes in the allocation of payroll wages among appropriation codes are processed as timely as possible. Often the authorizing documentation is not received from FEMA until after the employee has started working on the project. Projects are reviewed on a regular basis and any necessary adjustments to the allocation of payroll wages are made when information is provided by FEMA.

The department has established written procedures to ensure that reports are submitted by the deadline. The reports are reviewed and approved by the appropriate supervisor prior to being signed by the division head.

Report Title: **Audit of the University of Hawai'i Contract with the University of Hawai'i Foundation**
 Report No.: 04-08

RECOMMENDATIONS

1. The Board of Regents and the university administration should ensure that contracts for fundraising services conform to appropriate university procedures and sound contracting practices.
2. The contract for fundraising services with the University of Hawai'i Foundation should, at a minimum, include clearly stated services to be performed, clearly defined performance standards and measurable outcomes, the method(s) of evaluation for service performance, and penalties or remedies for failure to perform.
3. The university and the foundation should clarify their mutual intent regarding the relationship between the 2002 fundraising contract and the 1997 memorandum of understanding outlining their respective roles and responsibilities relating to fundraising.

ACTIONS TAKEN

The Board of Regents (BOR) has designated a task group to work with and monitor the university administration and the foundation to ensure conformance with university policies and procedures. The university administration designated the Chief of Staff to work with the foundation and the BOR to review and monitor the foundation's contracting and reporting practices.

The university and the foundation have completed a draft of a revised contract which takes into consideration the issues noted in the audit report. The draft is currently being reviewed by the BOR.

As noted above, the university and the foundation have drafted a revised contract which is being reviewed by the BOR. It combines the original contract and the memorandum of understanding into a single document and addresses the respective roles and responsibilities.

RECOMMENDATIONS

1. The Board of Regents and the university administration should ensure that contracts for fundraising services conform to appropriate university procedures and sound contracting practices.
2. The Board of Regents should:
 - a. Develop policies and guidelines for fundraising activities applicable to all university fundraising organizations, including the foundation;
 - b. Assume responsibility for contracting for financial and performance audits of fundraising activities;
 - c. Develop a capacity for monitoring fundraising activities, including utilizing the university's internal audit function, which should report directly to the board;
 - d. Ensure that the foundation's expenditure policies over donated funds are strengthened and enforced;
 - e. Ensure that purposes and spending limitations for all accounts, including unrestricted expendable accounts, properly reflect donor expectations; and
 - f. Ensure that donor intent is faithfully fulfilled.

ACTIONS TAKEN

The BOR's actions are described above.

The BOR has appointed a task group that is working with the foundation and the university administration to revise the contract between the university and foundation. This document defines the relationship between the parties regarding the fundraising activities of the foundation.

The foundation is a separate legal entity with its own governing Board of Trustees; it would not be appropriate for the university to be responsible for its audits. Additionally, the Internal Revenue Service and the State Attorney General also play an important role in oversight of not-for-profit entities such as the foundation.

The University of Hawai'i reorganization that was approved by the BOR on November 18, 2004, has the university's internal auditor reporting directly to the BOR. In addition, the foundation provides monthly fundraising reports to the BOR. The BOR chairperson (or designate) is an ex officio member of the foundation's Board of Trustees and participates on the Executive Committee. Through this liaison, the BOR has the opportunity to participate in, guide and understand all aspects of the Foundation's operations.

A task force has been established to review and strengthen the existing policy regarding the use of donated funds. The changes that will be made will facilitate the enforcement of the policy.

The BOR and the university internal auditor can audit the university units' use of donor funds to ensure compliance to policies and donor intent.

The foundation has an expenditure review process to ensure spending is in accordance with donor intent. The task force noted above will be recommending changes in the approval process of expenditures from donor established accounts.

The BOR and the university's internal auditor monitor the foundation's expenditure review process to ensure spending is in accordance with donor intent. The task force will be recommending changes in the approval process of expenditures from donor established accounts.

Report Title: **A Follow-Up Audit of Custodial Services Programs of the Department of Accounting and General Services, the Judiciary, the Department of Education, and the University of Hawai'i**
 Report No.: 04-09

RECOMMENDATIONS

The Department of Accounting and General Services, the Judiciary, the Department of Education, and the University of Hawai'i should use management tools and best management practices to improve their custodial services programs. Specifically, program managers should:

- a. implement guidelines for cleanliness standards in order to inform line staff of the level of cleanliness they must achieve and how their work will be evaluated;
- b. require the systematic use of checklist forms by line staff;
- c. require regular and documented inspections, including follow-up actions, by supervisory staff;
- d. evaluate their custodial services programs by assessing cost effectiveness of resource use, comparing alternative service delivery methods, and evaluating user satisfaction; and
- e. develop formal training programs to identify, develop, and build the knowledge, skills, and abilities that custodians need to perform their jobs safely and competently.

ACTIONS TAKEN

The Department of Accounting and General Services (DAGS) has adopted the cleanliness guidelines developed by the Association of Physical Plant Administrators (APPA). These guidelines establish five levels of cleanliness ranging from Level I, Orderly Spotlessness to Level V, Unkempt Neglect. Over the years, the DAGS custodial program has been tasked to provide custodial service to a number of additional facilities, without a commensurate increase in resources. As such each Janitor II is now responsible to clean an area ranging from 25,000 to 30,000 square feet. However, by applying the APPA standards the program's level of service has fallen somewhere between Level II (Ordinary Tidiness, 18,000 square feet) and Level III (Casual Inattention, 32,000 square feet). While a daily custodial task list has been developed to guide the Janitor II's in the performance of their daily tasks, the lack of staff resources continues to challenge the program's ability to attain the desired level of performance.

A daily checklist based on the daily custodial task list is in the process of being developed.

Previously developed inspection forms are being revised to address union concerns.

A survey has been completed to examine the differential costs of services being provided by public employees as compared to private enterprises. Request Partner, an online application has been implemented to allow building occupants to make work requests and to track the status of the requests. The application will be expanded to allow for the ability to conduct surveys to measure the level of occupant satisfaction.

Due to the lack of funds and staff, the program continues to use "in-house" training to develop basic custodial skills. The program continues to seek affordable outside training. DHRD developed training courses are also used to supplement these efforts.

RECOMMENDATIONS

The Department of Accounting and General Services, the Judiciary, the Department of Education, and the University of Hawai'i should use management tools and best management practices to improve their custodial services programs. Specifically, program managers should:

- a. implement guidelines for cleanliness standards in order to inform line staff of the level of cleanliness they must achieve and how their work will be evaluated;
- b. require the systematic use of checklist forms by line staff;
- c. require regular and documented inspections, including follow-up actions, by supervisory staff;
- d. evaluate their custodial services programs by assessing cost effectiveness of resource use, comparing alternative service delivery methods, and evaluating user satisfaction; and
- e. develop formal training programs to identify, develop, and build the knowledge, skills, and abilities that custodians need to perform their jobs safely and competently.

RECOMMENDATIONS

The Department of Accounting and General Services, the Judiciary, the Department of Education, and the University of Hawai'i should use management tools and best management practices to improve their custodial services programs. Specifically, program managers should:

- a. implement guidelines for cleanliness standards in order to inform line staff of the level of cleanliness they must achieve and how their work will be evaluated;

ACTIONS TAKEN

The Judiciary adheres to APPA level II cleanliness standards which have been issued to all custodial personnel. Custodial supervisors have explained these standards to custodial line personnel, and have instructed them to follow these standards as they perform the work described in the Judiciary custodial task list.

The Judiciary has implemented use of a Daily Custodian Checklist which is required to be completed by custodial personnel on a daily basis.

The Judiciary has instructed working custodial supervisors to perform bi-weekly inspections and custodial supervisors to perform monthly inspections with the working supervisors present for follow-up actions if needed. These inspections are documented, and any deficiencies are noted for later follow-up.

The Judiciary continues to monitor and evaluate its custodial services program on an ongoing basis to determine its cost effectiveness and customer

The Facilities Management Branch has worked with the Judicial Education and Resource Development Program (JERD) to develop a more active training program for the custodians. Custodial personnel have attended training developed by JERD that included physical security awareness and information regarding bomb threats, letter bombs, and searches. Also, facilities management is in the process of refurbishing its training program by updating its video training tapes and leaving a set at each site. These tapes cover floor care, carpet care, restroom care, hazard communications, and blood borne pathogens, and will allow custodial personnel to increase their knowledge and skills and perform their work competently and safely.

ACTIONS TAKEN

The Department of Education (DOE) held informational meetings for the Oahu head custodians to inform them of the audit results and the need to follow the cleanliness standards outlined in the DOE Custodial Handbook. The DOE plans to follow up with similar meetings on the neighbor islands.

- b. require the systematic use of checklist forms by line staff;
- c. require regular and documented inspections, including follow-up actions, by supervisory staff;
- d. evaluate their custodial services programs by assessing cost effectiveness of resource use, comparing alternative service delivery methods, and evaluating user satisfaction; and
- e. develop formal training programs to identify, develop, and build the knowledge, skills, and abilities that custodians need to perform their jobs safely and competently.

RECOMMENDATIONS

The Department of Accounting and General Services, the Judiciary, the Department of Education, and the University of Hawai'i should use management tools and best management practices to improve their custodial services programs. Specifically, program managers should:

- a. implement guidelines for cleanliness standards in order to inform line staff of the level of cleanliness they must achieve and how their work will be evaluated;

Principals have been notified of the custodial audit results, and of the recommendation to use the checklists found in the DOE Custodial Handbook.

The DOE is implementing a restroom restoration program which focuses on having the school custodians inspect their assigned restrooms multiple times during the day. A checklist and inspection guidelines are included in this program. This will be the basis for setting the expectations of the custodial staff, and eventually the DOE will expand this "accountability methodology" to other custodial duties. In addition, tentative plans are being made to reorganize the DOE and move the supervision of the custodians under a complex facilities coordinator. This will shift the programmatic supervision from the principal to a managerial employee who will have more time and knowledge to implement tighter custodial standards and controls.

The DOE is evaluating the effectiveness of the classroom cleaner program and may shift the classroom cleaning duties to custodians if additional funding resources can be found. The DOE also plans to revise the custodial handbook and re-evaluate the custodial staffing formula.

The DOE is completing the Custodial R&M Skills Training on the neighbor islands and is seeking funding to expand this training to Oahu. The development of formal training programs in other areas is dependent on department resources.

ACTIONS TAKEN

The University of Hawai'i has taken the actions listed below.

UH Mānoa has guidelines for cleanliness standards, which have been implemented since the first custodial audit in 1996. New employees are provided with training on how to meet these standards. All employees are informed of their job performance expectations on an annual basis through the use of the State's Performance Appraisal System (PAS). An inspection checklist is also used to evaluate cleanliness standards.

UH Mānoa Athletics has cleanliness standards, which are given to the custodians once a semester and the makai campus coordinator conducts yearly evaluations. The makai campus records hold the yearly evaluations and quarterly inspection records.

UH Hilo uses Level II for general cleanliness (rubbish is emptied every work day; restrooms and drinking fountains are cleaned and disinfected daily, thoroughly scrubbed weekly; halls and stairs are swept/spot mopped daily, and vacuumed and damp-mopped weekly; interior rooms chalkboards and rails cleaned, floors swept,

- b. require the systematic use of checklist forms by line staff;

spot mopped, and furniture put back in place daily, and floors are vacuumed and/or damp mopped weekly). All janitors are given a copy of the daily, weekly, monthly and annual tasks. Performance evaluations by their supervisor establish the criteria at the beginning of the evaluation.

All of the community college campuses have been provided samples of checklists of required tasks and samples of inspection checklists that they can either adopt or modify to meet their specific needs. The campuses plan to perform quarterly inspections, following up on areas of deficiencies accordingly.

A checklist which contains standards for UH Mānoa has been utilized since the first custodial audit in 1996. Supervisors are responsible for formally inspecting and evaluating the line staff on a quarterly basis and use this checklist as a basis of determining whether cleanliness standards are being met.

For UH Mānoa Athletics, the makai campus coordinator provides the custodians a checklist every semester or at the time of hire.

At UH Hilo a “friendly reminder” checklist is posted in each of the janitor rooms. End of shift reports by the crew’s working supervisor also list the non-daily activities performed, which the supervisor reviews on a daily basis.

- c. require regular and documented inspections, including follow-up actions, by supervisory staff;

Supervisory staff at UH Mānoa has been instructed to conduct quarterly inspections of each custodial employee using the established Inspection Checklist Performance Rating Form. These forms are completed by the working supervisors and reviewed by the full supervisors to ensure follow-up on any corrective actions or training which may be necessary.

For UH Mānoa Athletics, the makai campus coordinator and Janitor 3 provide weekly inspections of each area of responsibility. The makai campus coordinator or Janitor 3 meets with individual custodians to evaluate their performance. If the custodian’s performance is below standard, they will address the issue of attaining proper standards.

At UH Hilo, the janitor supervisor has a building/area inspection list to evaluate general conditions every quarter. General areas of need are discussed in bi-monthly meetings with the janitor working supervisors. Specific areas of need are discussed in specific crew meetings that include the respective working supervisor and assigned crews. Immediate or critical needs are addressed each day at the beginning of shift meetings or with specific job order request assignments.

- d. evaluate their custodial services programs by assessing cost effectiveness of resource use, comparing alternative service delivery methods, and evaluating user satisfaction; and

UH Mānoa will be developing a more systematic approach in assessing the cost effectiveness of existing service delivery methods as well as exploring alternate service delivery methods. A utility crew and a weekend crew have already been established to deal

- e. develop formal training programs to identify, develop, and build the knowledge, skills, and abilities that custodians need to perform their jobs safely and competently.

with extraordinary situations, coverage for long-term as well as temporary absences, and service to buildings and classrooms which are heavily utilized on the weekends.

A UH Mānoa campus-wide survey was distributed via e-mail in May 2004 to solicit faculty and staff assessment of custodial and landscape services. Although only a fraction of the campus community responded, it provided us with a sampling of tasks which we are perceived to be performing satisfactorily, and indicated areas of concern where we can improve.

For UH Mānoa Athletics, once a year during the athletic department budgeting process, evaluations of custodial services for the Makai Campus are conducted. The athletic department supplements our custodial efforts by contracting for outside custodial services as well as hiring student workers to perform custodial services. The Stan Sheriff Center and Les Murakami stadium managers utilize student help to assist with additional custodial services during events.

UH Hilo uses APPA national statistics to evaluate the cost effectiveness for facility support costs. UHH FY03 janitorial costs were \$1.19/gsf, or \$182.64/FTE. UHH contracts out dormitory common area cleaning to ARC. UHH janitors also provide logistic support for events and program relocation which would not be an option if campus cleaning were outsourced. Where cost effective and safety appropriate, UHH contracts specific annual tasks such as entire building carpet shampooing, exterior high window cleaning, etc. UHH user satisfaction is obtained by (a) having janitors report any requests and complaints to their working supervisor on a daily basis, (b) having the Janitor II working supervisor write up repair requests as part of their daily reporting requirements, (c) having the Janitor Supervisor perform quarterly inspections, (d) the Auxiliary Services Manager perform random spot checks throughout campus, (e) and an "open door policy" where comments (oral, electronic, written) are always welcome.

Many of the community colleges have begun to conduct and use satisfaction surveys as a means of assessing performance in the building and grounds areas. They also use the results for their accreditation review process. Due to the growth and expansion of many of our campuses, the campuses evaluate their staffing numbers in relation to square footage in order to justify the need for additional positions. A couple of campuses have even conducted detailed analyses that indicated that it would be more cost effective to hire employees from outside agencies, or in other words, privatize. These requests to privatize were submitted, but received unfavorable responses.

Last year at UH Mānoa we created a new position, Assistant Building Services Manager, which has been tasked with developing a formal training program to build the knowledge and competencies of our staff with topics in self-improvement, enhancing custodial

skills, and safety training. Training for the custodial staff is expected to be held at least once every quarter, with experts from the University staff, community, and private vendors as instructors. Recent training included "Dealing with Sensitive Diversity Issues" and "Understanding Chemical and Drug Dangers."

The facilities management custodial department located on the Mānoa campus provides the athletic department information about workshops related to custodial services which are mandatory for custodians. In addition, the athletic department has arranged for classes for custodial staff to deal with issues such as mold cleaning, new chemicals, and cleaning supplies with vendors that come in and demonstrate the proper use of equipment.

UH Hilo has an "Operational Tasks" guideline for a step by step guide of the various cleaning tasks. As new products are introduced in campus operations, the tasks are adjusted appropriately. UHH requires orientation and training for all new equipment. Manufacturers' representatives conduct on-campus training and demonstrations for the custodial staff. New employees are given an auxiliary services internal "Standard Operating Procedures" booklet which includes safety procedures. Employees are sent to initial and annual training for blood borne pathogens, lifting, chemical use, etc. New employees are paired up with a working supervisor or senior employee on the crew to help teach and review cleaning procedures, techniques, and equipment operation to ensure safe and efficient use of supplies and equipment.

During the past year the community college campuses have been provided training in, but not limited to, hazardous materials/waste management plan, hazard communication, office ergonomics and body mechanics, personal protective equipment, lock out/tag out awareness, fall protection awareness and ladder safety, hearing conservation, accident investigation techniques, general safety awareness, office safety, electrical safety, respiratory awareness, asbestos awareness, and mold awareness. Coinciding with our aggressive training program, the community colleges in the last year have seen a reduction in workers' compensation claims from 107 to 63 claims, and a reduction from approximately \$607,000 to \$275,000 in workers' compensation expenses.

In addition, the campuses have been provided with a detailed custodial training manual that they can adopt or revise to meet their needs. This will be used as their formal training program for newly hired custodians, and can be used in place of or with their existing on-the-job training program.

**OFFICE OF THE AUDITOR
APPROPRIATIONS AND EXPENDITURES ON A BUDGETARY BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

APPROPRIATIONS

Act 1, SLH 2003 (operations)	\$2,318,772
Act 1, SLH 2003 (special studies)	150,000
	<u>\$2,468,772</u>

EXPENDITURES

Staff salaries	\$1,477,499
Contractual services	555,534
Other expenses	178,812
Special studies	150,000
	<u>\$2,361,845</u>
Excess of appropriations over expenditures	<u>\$ 106,927</u>

EXCESS OF APPROPRIATIONS OVER EXPENDITURES

Act 1, SLH 2003 (operations)	\$ 106,927
Act 1, SLH 2003 (special studies)	\$ 0
	<u>\$ 106,927</u>

THE OFFICE OF THE AUDITOR

Hawai'i's laws provide the Auditor with broad powers to examine all books, records, files, papers, and documents and all financial affairs of every agency. The Auditor also has the authority to summon persons to produce records and to question persons under oath. However, the Office of the Auditor exercises no control function, and its authority is limited to reviewing, evaluating, and reporting on its findings and recommendations to the Legislature and the Governor.

To carry out its mission, the office conducts the following types of examinations:

1. *Financial audits* attest to the fairness of the financial statements of agencies. They examine the adequacy of the financial records and accounting and internal controls, and they determine the legality and propriety of expenditures.
2. *Management audits*, which are also referred to as performance audits, examine the effectiveness of programs or the efficiency of agencies or both. These audits are also called *program audits*, when they focus on whether programs are attaining the objectives and results expected of them, and *operations audits*, when they examine how well agencies are organized and managed and how efficiently they acquire and utilize resources.
3. *Sunset evaluations* evaluate new professional and occupational licensing programs to determine whether the programs should be terminated, continued, or modified. These evaluations are conducted in accordance with criteria established by statute.
4. *Sunrise analyses* are similar to sunset evaluations, but they apply to proposed rather than existing regulatory programs. Before a new professional and occupational licensing program can be enacted, the statutes require that the measure be analyzed by the Office of the Auditor as to its probable effects.
5. *Health insurance analyses* examine bills that propose to mandate certain health insurance benefits. Such bills cannot be enacted unless they are referred to the Office of the Auditor for an assessment of the social and financial impact of the proposed measure.
6. *Analyses of proposed special funds and existing trust and revolving funds* determine if proposals to establish these funds are existing funds meet legislative criteria.
7. *Procurement reports* include studies and audits relating to the State's procurement of goods, services, and construction.
8. *Special studies* respond to requests from both houses of the Legislature. The studies usually address specific problems for which the Legislature is seeking solutions.

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